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# English Banking in the Eighteenth Century

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Bankers, merchants and the creation of the  
English financial system

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Submitted in partial fulfilment of a Master of Letters (MLitt) in Economic History  
Department of History, Durham University

2015

The eighteenth century marks the emergence of a genuine English banking system. However it is a period that has received comparatively little historical attention. This thesis seeks to provide an analysis of some of the key features of this system, especially the London banks that stood at its core. It also seeks to show how banking related to the contemporary economy. While banking is usually linked to the growth of industry, especially outside of the provinces, this thesis argues that a new approach is required, which takes into account the banks' close relationship with England's important commercial sector.

## English banking in the eighteenth century – bankers, merchants and the creation of the English financial system

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## List of Abbreviations

Baring	ING/Baring Archives
BGA	Barclays Group Archives
DCRO	Durham County Record Office
<i>EcHR</i>	<i>The Economic History Review</i>
GLL	Guildhall Library, London
G&S	Goslings & Sharpe
KHAC	Kent History and Archives Centre
<i>ODNB</i>	<i>Oxford Dictionary of National Biography</i>
PHA	Petworth House Papers/Archives
RBSGA	Royal Bank of Scotland Group Archives
WSRO	West Sussex Record Office

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## **Dedication**

This thesis is dedicated to my father, who was always an inspiration to me.

## Introduction: The paradox of the eighteenth century financial system

The performance of the eighteenth century English economy is known to have been remarkable.<sup>1</sup> English commerce was transformed, while in the latter decades of the century innovations in manufacturing were beginning to transform the industrial sector. Theoretically one might anticipate that this success was linked with developments in the financial system that would help successfully to mobilise the financial resources needed for these changes. Yet while the work undertaken on the English financial system in this period tends to highlight its success in financing the English state, it has, at best, a mixed verdict on its influence on commercial and industrial ventures. This has led to suggestions that the Financial Revolution and the Industrial Revolution had nothing to do with one another. In particular the newly created banking system is often regarded as fragile and by some authors as unfit for purpose. This presents a paradox, where economic progress was achieved via a financial system, which despite clearly becoming more advanced is still considered as inadequate. Given that the evidence in favour of economic and commercial success is overwhelming, one needs to question traditional assessments of the 18<sup>th</sup> century financial system in order to resolve this apparent contradiction. This introduction will begin with a brief indication of the scope of change in English finance and economic performance in the eighteenth century and then highlight the evidence indicating that finance has a significant impact on economic growth. This will be followed by an analysis specifically of the current understanding of the eighteenth century banking system. This will indicate that there are significant gaps in our knowledge and a narrowness of approach to this topic that bring into question many of the conclusions that have been reached.

### I

At the onset of the eighteenth century, the English credit system was highly personal and diffuse.<sup>2</sup> Craig Muldrew has argued that the period from 1694 to 1720 witnessed changes that led to the acceleration of a process, stretching over three centuries, that saw credit 'becoming concentrated in the hands of fewer individuals'.<sup>3</sup> The English financial system at the end of the eighteenth century possessed a version of the five key elements that are associated with specialised and sophisticated financial systems: sound public finances and debt management; stable monetary arrangements; a variety of banks, both domestic and international; a central bank; and a well-functioning securities market.<sup>4</sup> The dynamism of the banking sector over the course of the century is also not really in doubt. The eighteenth century saw Britain become a more financial society, as can be seen in Table 1, most

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<sup>1</sup> I refer to England here, although technically this should read as England and Wales. Scotland and Ireland are deliberately excluded from this analysis, as they operated different financial systems in this period.

<sup>2</sup> Craig Muldrew, *The Economy of Obligation, The Culture of Credit and Social Relations in Early Modern England* (Basingstoke, 1998) has become the standard work for the credit economy of the seventeenth century and the very early part of the eighteenth.

<sup>3</sup> Muldrew, *Economy of Obligation*, pp. 328-9.

<sup>4</sup> Peter L. Rousseau and Richard Sylla, 'Financial systems, economic growth and globalisation', NBER Working Paper 8323 (2001), pp. 2-3 and 9-11. The only other nation with such all five elements was the Netherlands.

noticeably in the Financial Intermediation Ratio (financial assets as a share of tangible assets).

National Balance sheet of Great Britain			
	1688	1760	1800
Land	55%	41%	30%
Reproducible tangible assets	30%	31%	34%
<b>Tangible assets</b>	<b>85%</b>	<b>72%</b>	<b>64%</b>
Monetary metals	4%	2%	1%
Financial Assets	11%	27%	35%
Foreign Assets (net)	-	-2%	0%
<b>Total Financial Assets</b>	<b>15%</b>	<b>27%</b>	<b>36%</b>
<b>Total National Assets</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
National assets (£ bn)	0.35	1.05	2.73
GNP (£ bn)	0.05	0.09	0.23
<b>Financial Intermediation Ratio</b>	<b>17%</b>	<b>37%</b>	<b>57%</b>

Table 1: National Balance sheet of Great Britain (Source: Raymond W. Goldsmith, *Comparative National Balance Sheets, A study of Twenty Countries, 1688-1978*, pp. 232-33)

Much of this growth in financial assets was driven by the expansion of the national debt, which by 1800 accounted for about 17% of the nation's assets. Banks also played a role in the eighteenth century, claiming 3% of the nation's assets, from a position of insignificance.<sup>5</sup> By the turn of the nineteenth century, commonly used figures suggest there were around 230 Country Banks in England, from being virtually non-existent in 1750. Over 50 private banks operated in London, again showing considerable growth over the course of the century.<sup>6</sup> It is believed that in 1775 bank assets totalled £20.5 million pounds, or 15% of national income. By 1800 this grew to £54.8 million, or 28% of national income.<sup>7</sup> This growth in banking can also be seen in the changing role of other long-standing traditional financial intermediaries, such as the provincial attorney.<sup>8</sup>

The banking system in this context refers to four specialised types of firm that emerged in this period: London banks, which were either West End or City (and of course the Bank of England); provincial banks; and towards the end of the century merchant banks.<sup>9</sup> These

<sup>5</sup> Raymond W. Goldsmith, *Comparative National Balance Sheets, A study of Twenty Countries, 1688-1978* (London, 1985), pp. 232-3. One should note that these national balance sheet figures are imprecise and likely understate the share of financial assets, see *ibid.*, pp. 227-30.

<sup>6</sup> Edward Nevin and E.W. Davis, *The London Clearing Banks* (London, 1970), p. 36; D.M. Joslin, 'London Private Bankers, 1720-1785', *ECHR* 7:2 (1954), p. 173. These figures understate the number of banks.

<sup>7</sup> R. Cameron, *Banking in the Early Stages of Industrialization, A Comparative Study* (London, 1967), pp. 34-5. Once again these figures should be regarded as illustrative.

<sup>8</sup> M. Miles, 'The money market in the early industrial revolution: the evidence from West riding attorneys, c.1750-1800', *Business History* 23.2 (1981), pp. 127-46.

<sup>9</sup> For a general introduction to the structure of English banking, see L.S. Pressnell, *Country Banking in the Industrial Revolution* (Oxford, 1956), pp. 75-84; Sir John Clapham, *The Bank of England, A History, vol. 1 1694-1797* (Cambridge, 1944), pp. 157-172; Nicholas Lane, 'The Fathers of English Banking' *History Today* 3.3 (1953), pp. 190-99; Peter Mathias, *The First Industrial Nation, An Economic History of Britain, 1700-1914* (London, 2001), pp. 148-59.

banks were defined by the type of business and their customers, rather than their organisational structure, as all except the Bank of England were private partnerships.<sup>10</sup> Most of the historical literature considers any one part of this collection of different types of business in isolation. A recent exception has been James's article on English banking, but that is still limited in scope, being focused on the period 1793 to 1826.<sup>11</sup> For many historians the key distinction of these firms was their ability to mobilise new sources of capital. Melton defines banking as 'a system of money lending beyond an ordinary source of capital'. Simply lending money or discounting bills and notes is not sufficient: banking requires a capital based upon deposits.<sup>12</sup> Pressnell adopts a similar approach to address this question, writing that:

a banker's distinctive function is not to lend his own capital, for then he would be merely a species of money lender; nor is he a mere intermediary, between lender and borrower, for that would make him a money scrivener, or a broker: an agent not a principal. What makes a man a banker, and not some other kind of financial specialist, is the use of claims upon him to settle debts.<sup>13</sup>

Bankers kept client accounts and used this money as loan brokers to lend it out *in their own names*. The techniques of trading on note issues and customer deposits had been pioneered in the seventeenth century, but the activity became much more common in the eighteenth. Yet defining banking on the basis of deposits has become somewhat old-fashioned.<sup>14</sup> Modern banking studies acknowledge the importance of taking deposits and issuing loans, but argue that this is not the sole purpose of a bank, and might not even be its main function.<sup>15</sup> The focus has shifted from the source of a bank's funds towards its role in lending, as an assessor of projects and a monitor of the recipients of loans.<sup>16</sup> Others see commercial banks' significance in their provision of liquidity to the economy, or short-term credit; an ability to remit money; and the provision of a means of payment. Such a broader approach to banking is appropriate to the purposes of this thesis. While a focus on deposits captures a key feature of a clearing banker, it excludes the merchant banker, who normally traded on his own capital. Merchant banks are relevant however because their acceptance business was important in enhancing liquidity by making commercial bills discountable, while it also encompassed the monitoring function emphasised in modern literature.

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<sup>10</sup> I.S. Black, 'Private Banking in London's West End, 1750-1830', *London Journal* 28:1 (2003), pp. 53-4; Joslin, 'London Private Bankers', pp. 170-1.

<sup>11</sup> John A. James, 'English Banking and Payments before 1826', *Research in Economic History* 28 (2012), pp. 117-49.

<sup>12</sup> Frank T. Melton, *Sir Robert Clayton and the origins of English deposit banking, 1658-1685* (Cambridge, 2002) pp. 8-11; idem, 'Robert and Sir Francis Gosling: Eighteenth-Century Bankers and Stationers', in Robin Myers and Michael Harris (eds.), *Economics of the British Booktrade 1605-1939* (Cambridge/Alexandria, VA, 1985), pp. 67-8.

<sup>13</sup> Pressnell, *Country Banking*, pp. 225-6.

<sup>14</sup> See for example the *New Palgrave Dictionary of Money and Finance* under 'Banking firm'.

<sup>15</sup> Kent Matthews and John Thompson, *The Economics of Banking* (Chichester, 2005), p.1, citing Boyd and Gertler (1994) 'Are banks dead?'.

<sup>16</sup> See for example Eugene F. Fama, 'What's different about banks?', *Journal of Monetary Economics* 15.1 (1985), pp. 35-9. Fama argues that it is the banks' inside knowledge of their borrowers business that makes banking viable.

As apparent as the emergence of a banking sector is the change that took place in the eighteenth century economy. The period of the later eighteenth century has become synonymous in the economic literature with the Industrial Revolution. A part of the current understanding of the Industrial Revolution is acceleration in the measured growth rates of the English economy, pioneered initially by Phyllis Deane and W.A. Cole. They suggested that the most remarkable pick-up in growth occurred in the 1780s, with growth in industry and commerce reaching 3.43% per annum. Revisions made to the data by Crafts and Harley however substantially revised these estimates downwards. The difference in measurements amounts to a change from a six-fold increase in industrial production between 1780 and 1830 under Deane and Cole, to a fourfold increase under Crafts and Harley. For the economy as a whole, this translated to a difference between an expansion of three and a half times and two and a half times (2.5% p.a. and 1.7% p.a. respectively).<sup>17</sup> The substantial differences in the growth rates between 1780 and 1830 however mask agreement on many issues. Both sets of authors argued that a general revolution in industry did not occur, rather rapid productivity gains were only seen in textiles.<sup>18</sup> Notably Deane and Cole had also identified an earlier, more gradual increase between 1740 and 1770, which then petered out in that decade.<sup>19</sup> Crafts also argued that the size of the economy in 1780 had been underestimated.<sup>20</sup> Both these points suggest that greater attention to the earlier part of the century is warranted.

A narrow focus on growth rates is not entirely appropriate. The Industrial Revolution was originally used to coin a perceived social catastrophe, where the masses of destitute poor sat side-by-side with a very wealthy elite.<sup>21</sup> Crafts himself argued that the industrial revolution was less about advances in industry, but more about a 'structural shift' from agriculture to industry, a process that occurred at a sedate pace.<sup>22</sup> Hudson and Berg in particular provide strong arguments against the use of national income statistics in assessing the Industrial Revolution.<sup>23</sup> For many authors, despite Crafts' revisions to British growth estimates and changes in our understanding of when the acceleration in British growth took place, the core idea of an Industrial Revolution remains intact. The British economy led a Europe-wide process of change between 1700 and 1850 that meant for the first time that negative feedback barriers constraining economies were broken through. This was driven both by advances in technology and institutions that encouraged progress.<sup>24</sup>

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<sup>17</sup> For an overview of these changes, see Emma Griffin, *A short History of the British Industrial Revolution* (Basingstoke, 2010), chapter 2, especially pp. 15-8.

<sup>18</sup> *Ibid.*, pp. 19-20.

<sup>19</sup> *Ibid.*, p. 16.

<sup>20</sup> *Ibid.*, p. 20.

<sup>21</sup> D.C. Coleman, *Myth, History and the Industrial Revolution* (London, 1992), pp. 3-15.

<sup>22</sup> Griffin, *Short History of the Industrial Revolution*, pp. 27-8.

<sup>23</sup> Maxine Berg and Pat Hudson, 'Rehabilitating the Industrial Revolution', *ECHR* 45.1 (1992) pp. 26-30.

<sup>24</sup> Joel Mokyr, *The Enlightened Economy An Economic History of Britain 1700-1850* (Padstow, 2009), pp. 10-12; E.A. Wrigley, 'The Divergence of England: The Growth of the English Economy in the Seventeenth and Eighteenth Centuries: The Prothero Lecture', *Transactions of the Royal Historical Society*, Sixth Series, Vol. 10 (2000), pp. 129-34.

A key point in this regard is that by 1700, England was already one of the richest countries in the world on a per capita GDP basis.<sup>25</sup> This wealth was generated through an efficient agricultural sector, a relatively urban, middle-class society and a strong commercial sector.<sup>26</sup> Throughout the eighteenth century the country consolidated its position and moved towards becoming the leading economy in the world. This was a relatively sophisticated economy and sophisticated economies require better organisation. In the context of this study, it is perhaps the commercial aspect of this wealth that is particularly interesting. The importance of trade as an explanatory factor in the Industrial Revolution is a contentious topic.<sup>27</sup> However the commercial nature of English society, even in 1700, is not to be doubted. The commercial revolution is perhaps one of the most clear-cut features of the eighteenth century English economy. On current values, the compound annual growth rate of English exports as seen in Figure 1 was 2.87%.

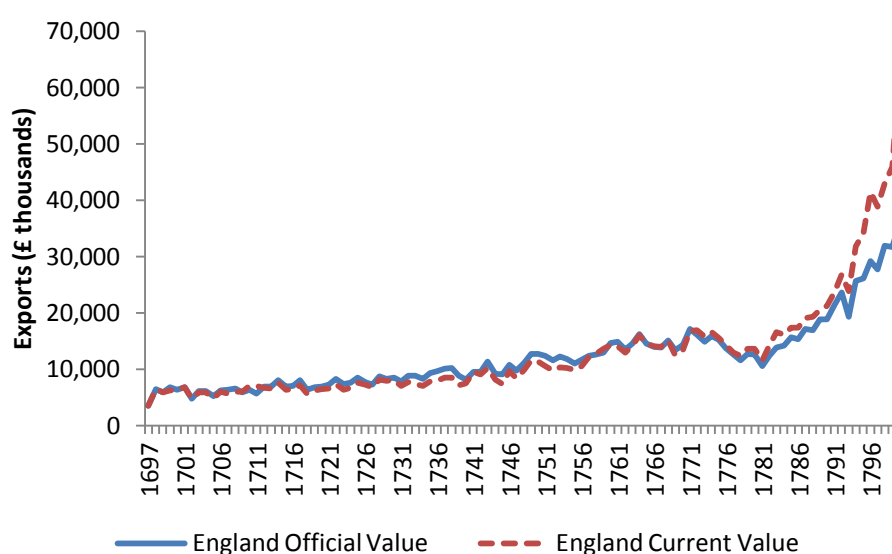


Figure 1: Official and current values of English exports in the eighteenth century (Source: John J. McCusker, 'The Current Value of English Exports, 1697 to 1800' *The William and Mary Quarterly*, 28.4 (1971) pp. 620-2)

That there ought to have been some connection between the economic changes and the eighteenth century financial system occurred to the earliest of observers. Joplin, who was a major critic of the structure of the English banking system of the time, did not doubt the importance of solid banks to economic growth.<sup>28</sup> Adam Smith also saw the advantages of an efficient modern banking system, even if some of his thoughts on the matter were slightly confused.<sup>29</sup> In particular he saw their worth in 'rendering a greater part of that [a country's] capital active and productive than would otherwise be so, that the most

<sup>25</sup> Angus Maddison, *The World Economy, Historical Statistics* (Paris, 2003), pp. 58-9.

<sup>26</sup> Mokyr, *Enlightened Economy*, pp. 13-20.

<sup>27</sup> For a recent, sceptical assessment of trade's importance, see Deirdre McCloskey, *Bourgeois dignity: why economics can't explain the modern world* (Chicago, 2010), chapters 23-25.

<sup>28</sup> Thomas Joplin, *An Essay on the General Principles and Present Practice of Banking in England and Scotland* (Newcastle-upon-Tyne, 1822), pp. 1-6.

<sup>29</sup> Edwin G. West, 'Adam Smith's Support for Money and Banking Regulation: A Case of Inconsistency', *Journal of Money, Credit and Banking* 29.1 (1997) pp. 127-34.

judicious operations of banking can increase the industry of the country'.<sup>30</sup> In particular banks' paper money allowed for the mobilisation of dead stock of traders, and was in Smith's mind especially appropriate for use in transactions between dealers (i.e. not with customers). However Smith also recognised the importance of discounting and lending upon cash accounts by banks in helping customers run their businesses more efficiently.<sup>31</sup> Not all economic thinking at the time agreed with this assessment of course. Turgot, for example, could not see how banking and paper money might facilitate capital formation.<sup>32</sup>

Modern economic literature similarly suggests that finance is important in driving economic growth. The banking system is expected to be fully integrated with the rest of the financial system, with the explicit aim of better utilising 'society's scarce resources, increas[ing] productive efficiency and ultimately rais[ing] the standard of living'.<sup>33</sup> The evidence from modern economic theory, while still not completely conclusive on the matter, suggests that economic growth is stimulated by an efficient financial system.<sup>34</sup> This idea dates back to Bagehot's *Lombard Street* and Schumpeter's *Theory of Economic Development*. Schumpeter in particular suggested that entrepreneurs were key to development and that the only way their activities could be accommodated in the economy was by an extension of the means of payment which was affected through the money markets, with bankers being critical to the supply of these funds.<sup>35</sup> The earliest empirical studies in support of this position date to the 1960s. The work of Raymond Goldsmith features prominently, although he could not draw a firm conclusion on the direction of causality from either economic theory or economic history.<sup>36</sup> Cameron's important work, published at about the same time, sought to address the connection between banking and industrialisation through comparative historical studies. His conclusions were similarly ambiguous, as the variations in historical experience across countries were substantial, but did tend to suggest that in countries such as Scotland and Japan, the strength of the banking system was of direct benefit to industrial development.<sup>37</sup>

Over the last two decades, there has been a considerable volume of scholarship devoted to this topic, much of which suggests that the causality runs from financial development to

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<sup>30</sup> Adam Smith, *The Wealth of Nations, Books I-III* (1776), ed. Andrew S. Skinner (London, 1999), p. 419.

<sup>31</sup> *Ibid.*, pp. 420-3.

<sup>32</sup> See Antoin E. Murphy, *The Genesis of Macroeconomics: New Ideas from Sir William Petty to Henry Thornton* (Oxford, 2009), p. 134. Turgot was probably unduly influenced by France's experience of a paper currency under John Law, a man who had indeed appreciated its advantages.

<sup>33</sup> Alan Griffiths and Stuart Wall, *Applied Economics*, 9<sup>th</sup> edition (Harlow, 2001), p. 524.

<sup>34</sup> For a short overview of the literature, and an opinion on the inconclusive nature of the evidence, see Richard S. Grossman, *Unsettled Account: The Evolution of Banking in the Industrialised World Since 1800* (Oxford, 2010), pp. 5-10.

<sup>35</sup> Joseph Schumpeter, *The Theory of Economic Development, An Inquiry into Profits, Capital Credit, Interest, and the Business Cycle* (London, 1934 edition, 13th printing, 2007), chapter III; Walter Bagehot, *Lombard Street: A Description of the Money Market*, 10<sup>th</sup> edition (London, 1896), chapter 1. The early importance of Bagehot and Schumpeter is widely acknowledged, including by Grossman, Levine, and Rajan and Zingales.

<sup>36</sup> Raymond W. Goldsmith, *Financial Structure and Development* (New Haven and London, 1969), chapter 9. The problems deriving from the historical literature at the time are covered on pp. 401-8.

<sup>37</sup> Cameron, *Banking in the early stages of industrialisation*, *passim*.

economic growth.<sup>38</sup> Particularly significant in this regard has been the work of Ross Levine.<sup>39</sup> He argues that, despite some remaining ambiguity in the nature of this link, the preponderance of theoretical reasoning and empirical evidence ‘suggests a positive, first-order relationship between financial development and economic growth’.<sup>40</sup> Both banks and stock exchanges are important in this development, although the regression models suggest that they perform slightly different functions.<sup>41</sup> Central to the explanation of this argument is the ‘transmission’ mechanism by which greater financial development increases economic growth. Four principal ways are identified in which this can happen: through the pooling of capital; through screening/monitoring potential/actual recipients of capital (Levine treats these two functions separately); through diversification; and through the lowering of transaction costs.<sup>42</sup>

Other approaches within the economic literature have yielded similar conclusions. Rajan and Zingales have addressed some of the problems with Levine’s evidence, the most important being whether finance was simply a leading indicator rather than a cause of economic growth. By examining the financial sector’s role in bringing external funds to firms, they offer an alternative approach at the micro-economic level, which again suggests that better financial services reduce the cost of external finance to firms and thus are supportive of industrial growth.<sup>43</sup> Rousseau and Sylla have attempted to combine some of the economic and economic history approaches, incorporating historical data into the framework pioneered by Levine.<sup>44</sup> Their analysis, incorporating cross-country comparisons, also effectively builds on Cameron’s work. Indeed these authors argue that some of the historical approach to the finance-growth nexus is more compelling than studies based on large datasets of the more modern era.<sup>45</sup> Other contributions have begun to refine earlier conclusions. Thus Jaremski and Rousseau’s work suggests for example that in the USA,

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<sup>38</sup> The number of publications on this matter is substantial and this is by no means a complete analysis of this subject. Works consulted here, aside from those discussed in greater detail below include Valerie Bencivenga and Bruce D. Smith, ‘Financial Intermediation and Endogenous Growth’, *Review of Economic Studies* 58 (1991), pp. 195-209; Afrah Larnaout Gouider and Mohamed Trabelsi, ‘Does Financial Market Development Matter in Explaining Growth Fluctuations?’, *Savings and Development* 30.4 (2006), pp. 469-95.

<sup>39</sup> Ross Levine has written extensively on this subject, both by himself and in collaboration with others. Works consulted include: Ross Levine, ‘Financial Development and Economic Growth: Views and Agenda’, *Journal of Economic Literature* 35.2 (1997), pp. 688-726; idem, ‘Finance and Growth: Theory and Evidence’ in *Handbook of Economic Growth*, vol. 1 (Amsterdam, 2005) pp. 866-923; Ross Levine and Sara Zervos, ‘Stock Markets, Banks and Economic Growth’, *The American Economic Review* 88.3 (1998), pp. 537-58.

<sup>40</sup> Levine, ‘Financial Development and Economic Growth: Views and Agenda’, p. 688.

<sup>41</sup> Levine and Zervos, ‘Stock Markets, Banks and Economic Growth’, pp. 537-40.

<sup>42</sup> Levine, ‘Finance and Growth: Theory and Evidence’, pp. 870-881; Peter L. Rousseau and Richard Sylla, ‘Financial revolutions and economic growth: introducing this EEH symposium’, *Explorations in Economic History* 43.1 (2006) pp. 5-6.

<sup>43</sup> Raghuram G. Rajan and Luigi Zingales, ‘Financial Dependence and Growth’, *The American Economic Review* 88.3 (1998), pp. 559-60, 584.

<sup>44</sup> Rousseau and Sylla, ‘Financial systems, economic growth and globalisation’, pp. 20-21.

<sup>45</sup> Peter L. Rousseau and Richard Sylla, ‘Financial revolutions and economic growth: introducing this EEH symposium’, *Explorations in Economic History* 43.1 (2006), p. 4.



chartered banks were more effective at driving economic growth than the free banks.<sup>46</sup> While financial development is then generally important in encouraging economic growth, the question that arises is whether this analysis is relevant to the eighteenth century economy in England.

In the context of this question, Rousseau's 'Historical Perspectives on Financial Development and Economic Growth' is notable. In this paper, he suggests that in their early stages, the resource mobilisation that well-developed financial systems facilitate is as significant as the direction of these resources towards productive enterprise. He argues that from a macro-economic perspective, the cases of the Netherlands, England and the US all indicate that 'banks and financial markets did promote investment and commercial activities by generating information, pooling funds, facilitating payments, and providing working capital for the largest companies that traded on the world's earliest "stock exchanges"'.<sup>47</sup> Specifically on England, he argues that between 1720 and 1850 there were improvements to both its banking system and its commercial and industrial performance. The time series indicate 'the initial development of a commercial sector that later nurtured and was complemented by a growing manufacturing sector'.<sup>48</sup> The results of his analysis suggest that monetization of the economy (as measured by Bank of England liabilities) caused industrial development (but not trade), and this industrial development drove further growth in trade.<sup>49</sup> Equally the Bank of England's lending drove the expansion of trade in its own right.<sup>50</sup> While the author readily acknowledges the suggestive nature of the conclusions, he notes that they are consistent with results from other countries and the more modern era where better datasets are available. The financial sector mattered not just for the direct investments it made, but also provided an incentivisation effect for invention as it was known that attractive ideas could receive financing. Crucially the financial sector's significance should not solely be measured through the effectiveness of its resource allocation, which Rousseau argues was a later development in financial capability.<sup>51</sup> The relevance of these results is two-fold. Firstly, there is the overall insight they offer on the significance of the banking sector in this period from a quantitative perspective. Further qualitative work on this link thus appears justified, in order better to answer the questions of how this link worked in practice. Secondly it highlights the importance of considering the impact of finance beyond its ability to allocate resources to industry, which is a question that the historical literature addresses poorly.

A difficulty arises however because while the theoretical and empirical links between economic growth and a strong financial and banking system are apparent, economic and financial historians of eighteenth century England have struggled to elucidate a clear

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<sup>46</sup> Matthew Jaremski and Peter L. Rousseau, 'Banks, Free Banks and U.S. Economic Growth', NBER Working Paper 18021 (2012), pp.19-21.

<sup>47</sup> Peter L. Rousseau, 'Historical Perspectives on Financial Development and Economic Growth', NBER Working Paper 9333 (2002), p. 2. This paper has been subsequently published in the *Federal Reserve Bank of St. Louis Review* 84.4 (2003), pp. 81-105.

<sup>48</sup> Rousseau, 'Historical Perspectives on Financial Development and Economic Growth', pp. 13-16.

<sup>49</sup> Ibid., pp. 19-21.

<sup>50</sup> Ibid., p. 20. The latter result is at the statistical 15% level, which is not conventionally regarded as significant.

<sup>51</sup> Ibid., pp. 38-40.

connection between the financial system and economic growth. Indeed much of the history of banks in particular has regarded them as sub-optimal. Despite a few historians' attempts to challenge this point, the prevalent view is that the Financial Revolution and Industrial Revolution were disconnected. The question raised is whether the absence of a connection in the literature reflects the fact that the link genuinely did not exist or whether it is the result of a flawed approach to the study of banks in this period. The following section on the historiography of eighteenth century English banks shows a number of reasons why it may well be a result of a lack of adequate understanding of the purposes and functions of banks in this period.

## II

The greatest strength of the financial system of the time is readily acknowledged: it is applauded for its ability to finance the English state, as originally shown in P.G.M. Dickson's pioneering *Financial Revolution*.<sup>52</sup> Dickson demonstrated how the finances of the state were re-organised from 1688 to the mid-eighteenth century to allow Britain to finance increasingly expensive wars through unprecedented use of debt. As a work of history, this book has been hugely significant as other historians have examined the fuller implications of this pioneering work.<sup>53</sup> However the work, with its emphasis on capital markets, has served to deflect recent historical attention away from other parts of the financial system, in particular the private banks. It is in the area of private finance that the effectiveness of the financial system has been particularly questioned. One can identify two broad lines of criticism. The first is that the banking system was structurally unsound, especially because of the prohibition on joint-stock banking resulting from the monopoly granted to the Bank of England. The second was that the banks that did emerge were not as efficient as they should have been in making capital available to the wider economy, especially to industry. It is necessary to consider these criticisms in more detail.

Both of these criticisms are readily identifiable in the most recent significant contribution to English banking history of this period, Cameron's *Banking in the Early Stages of Industrialization*.<sup>54</sup> Largely a work of comparative history, it added little to the knowledge or understanding of the English banking system in its own right. Its significance instead was in pioneering the comparative approach to banking history and, more importantly in the current context, emphasising the role of banks as vehicles for industrial development. On the latter point, it underscored a shift that had been taking place throughout the 1950s and 1960s. Cameron's work then clearly reflected a school of historical thought that wanted to understand the role of banking in facilitating industrialisation. His conclusions were based on its success in this particular area. He regarded English banking from 1750 to 1844 as 'far

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<sup>52</sup> P.G.M. Dickson, *The Financial Revolution in England, A study in the development of public credit, 1688-1756* (London, 1967). For further detail on this study, see chapter 1.

<sup>53</sup> Prominent examples include John Brewer, *The Sinews of Power, War, Money and the State, 1688-1783* (Harvard, 1988); Larry Neal, *The Rise of Financial Capitalism, International capital markets in the Age of Reason* (Cambridge, 1990); Anne Murphy, *The Origins of English Financial Markets, Investment and Speculation before the South Sea Bubble* (Cambridge, 2009); P.K. O'Brien has written on the linked issue of taxation, see 'The political economy of British taxation, 1660-1815', *EcHR* (1988), pp. 1-32.

<sup>54</sup> Cameron, *Banking in the Early Stages of Industrialization*.

from ideal in its contribution to either stability or growth of the economy' but believed it had a 'positive and significant contribution to industrialisation'.<sup>55</sup> Here one can see the early criticism of English banking neatly summarised: while it was not ineffective, other countries, most obviously Scotland, had developed systems more effective at encouraging industrial development.

The criticism of the structure of English banking dates back to at least the 1820s and is based around the prohibition of joint-stock banks that was encapsulated in the Bank of England's charter of 1708.<sup>56</sup> All bank partnerships from that point forward were limited to a maximum of six partners. A prominent critic of this arrangement was Thomas Joplin, who was integral to the restriction's removal in 1826. Joplin was in favour of a 'Scottish' model of banking, based around joint-stock banks, as opposed to the unitary system that had developed in England.<sup>57</sup> This was broadly a matter of stability: Scottish banks were thought better able to withstand extraordinary pressures than those that emerged in England. Modern historians have not tended to disagree with his assessment. Thus Crick and Wadsworth clearly believed that the private banking structure was not as effective as the joint-stock model.<sup>58</sup> Pressnell summed the position up by arguing that 'common to all banks was a wholly unnecessary weakness, imposed by the retention, until 1826, of the monopoly of joint-stock banking by the Bank of England'.<sup>59</sup> Given Pressnell's contribution to the study of country banking, his opinion carries significant weight. Others to follow this argument have been Scottish historians: Munn, for example, argues that the English private bankers were a source of instability by 1826, in explicit contrast to those of Scotland (and Ireland).<sup>60</sup>

That the English banking system suffered periodic shocks prior to 1826 cannot be doubted. However there are reasons to be cautious about the criticisms of the English system. These assessments have been heavily influenced by the period from 1800 to 1826, an economically exceptional period when the decision to suspend the convertibility of bank notes fundamentally changed the rules of banking.<sup>61</sup> It is not altogether clear that the system was any more vulnerable than that of Scotland through to 1797. An actual statistical analysis in this early period has not been forthcoming. Equally indicative of a potential flaw in this argument is the fact that for the north east of England, it has been shown that the joint-stock banks were actually less stable than the early private banks.<sup>62</sup> Obviously this reflects the experience of one region, which may have been atypical, but it indicates the

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<sup>55</sup> Ibid., p. 58.

<sup>56</sup> J. Lawrence Broz and Richard S. Grossman, 'Paying for privilege: the political economy of Bank of England charters, 1694-1844', *Explorations in Economic History* 41.1 (2004), pp.49-52, 56-8.

<sup>57</sup> Thomas Joplin, *An Essay on the General Principles and Present Practice of Banking in England and Scotland* (Newcastle-upon-Tyne, 1822), pp. 16-17.

<sup>58</sup> W.F. Crick and J.E. Wadsworth, *A Hundred Years of Joint-Stock Banking* (London, 1936), chapter 1, especially pp. 9-43.

<sup>59</sup> L.S. Pressnell, 'Public Monies and the Development of English Banking', *EcHR* 5:3 (1953), pp. 396-7.

<sup>60</sup> Charles W. Munn, 'The Emergence of Joint-Stock Banking in the British Isles, A Comparative Approach', *Business History* 30:1 (Jan, 1988), pp. 69-72; idem, *The Scottish Provincial Banking Companies 1747-1864* (Edinburgh, 1981), pp. 233-7.

<sup>61</sup> Ian P.H. Duffy, 'The Discount Policy of the Bank of England During the Suspension of Cash Payment, 1797-1821', *EcHR* 35.1 (1982).

<sup>62</sup> James, 'English Banking and Payments before 1826', pp. 120-4.

requirement for further research on this topic. Others studies not directly related to the English experience also show the need for greater analysis of this question. Theoretical studies on the relative performance of unitary and joint-stock banking systems equally have tended to show ambiguous results on their relative strengths. Early theoretical studies suggested that branch banking should be more stable, as such structures create more diverse loan portfolios, have more geographically diverse deposit bases, which protect against local bank runs, and provide seasonal diversification. Grossman cautiously agrees with this point, arguing that a straight comparison of the US and Canadian banking performance in 1930 suggests that the strength of branch banking was real. However some recent studies find the evidence for this to be less clear-cut.<sup>63</sup> A study of the problems in the US in the 1980s argued that, although the inter-state banking restrictions were not desirable, the greatest problems had stemmed from the largest banks in the system and that small, local banks did not suffer disproportionate loan losses.<sup>64</sup>

There is a second strand to this debate on the relative strengths of unitary and joint-stock banks, which relates to client relationships rather than financial stability. Carnevali has argued for example that unitary, or at least locally orientated banks, are more effective at meeting the needs of their customers, largely because they can deal more effectively with information asymmetries inherent in bank lending.<sup>65</sup> Thus English small firms in the twentieth century have been systematically disadvantaged by the intensively consolidated joint-stock banking system.<sup>66</sup> This can be related to a more long-standing criticism of English banking: that it was not ideal, or outright ineffective, in the provision of finance for industry. This debate stretches back before the twentieth century and is therefore not just about banking structure. Rather it is also one of banking practice and culture. Systematic studies of the topic based on nineteenth century bank records are not as comprehensive as they might be, but do tend to suggest that banks were flexible and supportive of industry. Business histories, if they address the issue at all, deliver more mixed results, with breweries for example gaining ready access to bank facilities, while collieries were more likely to be privately financed.<sup>67</sup> Collins and Baker themselves argued that banks focused on the provision of short-term loans, a trend that increased over time. Banks had a 'strong aversion to risk taking' in their industrial lending.<sup>68</sup> This debate has been linked to a supposed overall industrial decline in the later nineteenth century. Some attempts to extend the analysis of bank industrial finance backwards to the eighteenth century have been made, with ambiguous results. Most noticeably, both Cottrell and Mathias argue that

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<sup>63</sup> Grossman, *Unsettled Account*, pp.76-8 and 241-2. These hypotheses are most often tested in the USA, where unit banking lasted longer: by the end of the nineteenth century, only 5 states allowed branch banking.

<sup>64</sup> Boyd and Gertler, 'U.S. Commercial Banking: Trends, Cycles, and Policy', pp. 361-2.

<sup>65</sup> Francesca Carnevali, *Europe's Advantage: Banks and small firms in Britain, France, Germany and Italy since 1918* (Oxford, 2005), pp. 7-10, 196-7.

<sup>66</sup> *Ibid.*, pp. 15-27.

<sup>67</sup> Michael Collins and Mae Baker, *Commercial Banks and Industrial Finance in England and Wales, 1860-1913* (Oxford, 2003), pp. 17-23, provides a brief overview of the historiography of the debate for the nineteenth century.

<sup>68</sup> *Ibid.*, pp. 257-8.

the very limited surviving evidence suggests that banks would engage in lending to industrial clients.<sup>69</sup>

Cottrell and Mathias' conclusions intuitively feel more plausible than extreme weaknesses in industrial finance, which would appear paradoxical in light of England's economic success in the eighteenth century. Indeed there are objections that can be made to this analysis, based around three main concerns. There are serious defects with the broad evidence. This is true for both historians and economists. The economists are largely reliant on macro-level data on which regression models are run; data which is not always as good as it might be. Addressing this defect lies beyond the scope of this thesis. Where it can hope to make some contribution is in improving the understanding of how the transmission mechanisms between banking and the economy worked in practice. This would in itself help drive further quantitative analysis in the future. Much of the historical literature has focused on the relationship between banking and industry. In this respect, it is possible that the questions that these authors were seeking to answer were misconceived, or at least too narrow.

On the question of evidence, the narrowness of the knowledge base on which these conclusions have been drawn is readily apparent. Most studies of the significance of banking are enormously dependent on the work of Pressnell, the only existing work to provide an in-depth analysis of (one part of) the banking industry.<sup>70</sup> As the first attempt to study country banks, this is an impressive piece of historical writing. Horsefield suggested upon its publication that 'seldom can a pioneer effort have produced so solidly established a standard work'.<sup>71</sup> Maybe it is a tribute to the rigour of the study that additional attempts to conduct original research on country banking are comparatively rare. This is best seen in James' statement in 2012: 'I must acknowledge that I stand on the shoulders ... of Pressnell's *Country Banking*'.<sup>72</sup> The most significant addition to the study of country banking has been made by Iain Black, who focused on their role as agents of national economic integration.<sup>73</sup> Local historians also continue to pursue the subject, Banham's work on banking in the North East being one of the more successful attempts of this type.<sup>74</sup> As will be argued later, more work of this nature would enhance our understanding of the topic. Other contributions are more minor, Liam Brunt's work on provincial bankers as venture capitalists providing an interesting example, but the significance of his conclusions

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<sup>69</sup> P.L. Cottrell, *Industrial Finance 1830-1914, The finance and organisation of English manufacturing industry* (London, 1980), pp. 26-35; Peter Mathias, *The Transformation of England* (London, 1979, reprinted 2006), pp. 104-8.

<sup>70</sup> Pressnell, *Country Banking*, passim.

<sup>71</sup> J. Keith Horsefield, Review of L.S. Pressnell, *Country Banking in the Industrial Revolution*, in *Economica* 23.91 (1956), p. 274.

<sup>72</sup> James, 'English Banking and Payments before 1826', pp. 117-18.

<sup>73</sup> I.S. Black, 'Geography, political economy and the circulation of finance capital in early industrial England', *Journal of Historical Geography* 15 (1989) pp. 366-84; idem, 'The London Agency System in English Banking, 1780-1825', *London Journal* 21.2 (1996), pp. 112-30.

<sup>74</sup> John David Banham, 'Business Development and Banking in North East England, 1755-1839', unpublished PhD thesis (University of Sunderland, 1997).

are not fully developed.<sup>75</sup> Fundamentally, Pressnell's conclusions remain unaltered and his work the best study of the subject. Aside from Pressnell, the other work to achieve impressive longevity has been Clapham's work on the Bank of England. Although clearly an institutional history, this work stands out because Clapham could provide important context thanks to broad research carried out from 1900 to 1930. This means that he managed to write what is still probably the best all-encompassing overview of the eighteenth century banking.<sup>76</sup> Despite new publications emerging, it remains the most important study of the Bank.<sup>77</sup>

The problem is that beyond these two works, the existing literature is inconsistent both in terms of its coverage and quality. The four pioneering banking histories are considered to be Martin's *History of the Grasshopper*, followed by Hilton Price's *London Bankers*, Maberley Phillips' *Banking in the North of England* and Cave's *Banking in Bristol*, all published in the 1890s.<sup>78</sup> These often originated from partners and former employees of banks, along with members of banking families, writing histories of organisations they were a part of or associated with. Thus Cave was descended from the banking family in Bristol and his interest is unsurprising.<sup>79</sup> Phillips worked for the Bank of England in Newcastle and subsequently proceeded to produce his work on banking in the North of England, partly due to genuine antiquarian interest and the desire to fill an apparent knowledge gap.<sup>80</sup> Their interest was also a response to the amalgamation movement that was gathering pace and consuming in particular the private banks, whose identity they subsequently wished to preserve.

These older works do have clear limitations, but are still of great significance. There is a strong emphasis on the history of the partners of these banks, rather than the banks themselves, although this does capture the personal nature of these businesses in their early stages. This focus also reflects the difficulty of early historians in accessing information on these private institutions. As one reviewer of the subject pointed out, as private enterprises there were no public statistics to draw upon to form a 'scientific account' of them.<sup>81</sup> Indeed the secrecy of eighteenth century banks remains a constraint on modern analysis.<sup>82</sup> An advantage of these early accounts is that they were produced by people who worked in an era when private bankers were still active, and often had access to generations who could remember some of the early histories of the firms from which

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<sup>75</sup> Liam Brunt, 'Rediscovering Risk: Country Banks as Venture Capital Firms in the First Industrial Revolution', *Journal of Economic History* 66.1 (2006), pp. 74-102.

<sup>76</sup> Clapham, *The Bank of England*, chapter 4.

<sup>77</sup> Newer publications covering the early history of the Bank of England include David Kynaston and Richard Roberts, (eds.) *The Bank of England, Money, Power and Influence, 1694-1994* (Oxford, 1995).

<sup>78</sup> H.S. Foxwell, 'Review of *A History of Barclays Bank*', *The Economic Journal* 37 (Sep. 1927), p. 411.

<sup>79</sup> C. Cave, *A history of banking in Bristol from 1750 to 1899* (Bristol, 1899), passim.

<sup>80</sup> Maberley Phillips, *A History of Banks, Bankers and Banking in Northumberland, Durham and North Yorkshire, illustrating the commercial development of the North of England from 1755 to 1894* (London, 1894), pp. viii-x.

<sup>81</sup> Foxwell, 'Review of *A History of Barclays Bank*', p. 411.

<sup>82</sup> D. M. Joslin, 'London Bankers in Wartime, 1739-84' in L.S. Pressnell (ed.), *Studies in the Industrial Revolution* (London, 1964), p. 156.

they emanated, even if their memory may not have been perfect.<sup>83</sup> Even if some of the information may have been scratchy, these works provide us in many instances with the most reliable source of basic facts about these banks, for example the date of their formation. As Banham says of Philips' work, it is significant both nationally and regionally, and although limited, contains important implicit analysis of networks in particular.<sup>84</sup> Similar sentiments could be expressed about many of the other publications of that era.

Gradually, sufficient information was revealed through these histories to allow a more considered opinion of the banking industry to be formed. A consistent theme of the 1910-30 period was the publication of more systematic studies of banking and finance. The most comprehensive effort in this direction was carried out in the 1920s by R.D. Richards which remains the only explicitly general, long-term history of early banking. Even in this case, although purportedly a comprehensive survey, the relevant section on the eighteenth century is dominated by the development of the Bank of England.<sup>85</sup> However this literature did serve to draw out key points. Above all, it fundamentally shifted the study of the emergence of banking in England from a narrow focus on the goldsmiths of the Civil War and the Restoration period and considered the role of the state, the law and the mercantile classes, especially in London. The 'village usurers' and 'pawnbrokers to the wealthy' of earlier histories were comparatively minor sideshows.<sup>86</sup> This approach had the merit of placing the development of the banker within a longer-term trend, rather than seeing it as an aberration resulting from the Civil War. Indeed the subject of the origins and early activities of banking has remained a popular field of study into the modern period.<sup>87</sup>

Others were also managing to think of finance in a more conjoined way and were publishing high quality work. W.T.C King and W.R. Bisschop carried out important work on the London discount markets.<sup>88</sup> Bisschop in particular emphasised that his history of the English money market studies the themes surrounding the creation of 'the English banking system'.<sup>89</sup> Their greatest contribution is that they allowed a glimpse into the operation of finance beyond the direct provision of the finance to the state. They are also important for providing insights into the links that held the system together and developments in London. Banks did not operate in isolation, but formed part of a wider group of financial intermediaries that were intimately linked. In the context of these types of work, Clapham and Pressnell's works can be seen as the culmination of a generation's efforts to

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<sup>83</sup> Phillips, *Banking in North of England*, pp. viii-x.

<sup>84</sup> Banham, 'Business Development and Banking in North East England', pp. 31-2.

<sup>85</sup> R.D. Richards, *The Early History of Banking in England* (London, 1929).

<sup>86</sup> A.V. Judges, 'The origins of English banking', *History* 16.2 (1931) pp. 138-9. Judges focuses principally on the seventeenth century.

<sup>87</sup> Melton, *Sir Robert Clayton*; Eric Kerridge, *Trade and Banking in Early Modern England* (Manchester, 1988); Stephen Quinn, 'Goldsmith-Banking: Mutual Acceptance and Interbanker Clearing in Restoration London', *Explorations in Economic History* 34 (1997) pp. 411-432; David Mitchell (ed.), *Goldsmiths, Silversmiths and Bankers, Innovation and the Transfer of Skill, 1550-1750* (Stroud, 1995), chapters by Mitchell and Quinn.

<sup>88</sup> W.T.C. King, *The History of the London Discount Market* (London, 1936); W.R. Bisschop, *The Rise of the London Money Market, 1640-1826* (1910, reprinted New York, 1968).

<sup>89</sup> Bisschop, *Rise of the London Money Market*, p. 27.

understand the English financial system in its own right, before the focus on banking and industrialisation became entrenched in the post-war period.

This leads to the major problem of the banking historiography covering this period. In the post war period, the older banking histories have been augmented by a plethora of histories of individual banking companies, often commissioned by the banks themselves, and offering a mixed standard of work. All too often, as Cottrell and Anderson suggest, they are excessively anecdotal in their nature and do not examine the wider implications of their evidence.<sup>90</sup> This criticism is particularly justified for some of the more modern offerings, including the histories of Coutts', Hoare's and Drummond's banks.<sup>91</sup> Leighton-Boyce's history of the Smiths' Bank in contrast provides a template of an effective study.<sup>92</sup> Other historians have provided effective institutional histories, but have concentrated on the more recent past of the banks. Sayers' history of Lloyds is essentially a history of nineteenth century English banking, with an emphasis towards the Birmingham end of the bank. Ackrill and Hannah's history of Barclays also does better than most, but the eighteenth century history of the bank is the weakest section of the book.<sup>93</sup> Yet the most obvious deficiency is the absence of a proper consideration of eighteenth century banking in London. A handful of articles have been written on the subject, but one generally finds that these focus more on a relatively small number of 'West End' banks.<sup>94</sup> Other more recent studies have made extensive use of Hoare's important archives.<sup>95</sup> Although providing some interesting ideas, their narrow evidence base makes it difficult to judge their wider significance. What is evidently lacking is an extended study of the London banks, in particular the City banks, which are known to have been closer to the commercial world. Thus the conclusions on the subject of eighteenth century banking are based on judgements that have been made without a proper understanding of perhaps the most important link in the system.

Furthermore, it is not clear that critics of eighteenth century banks were asking the most appropriate questions. Although banks were clearly involved in the finance of industry, it is not obvious that this was their primary purpose at the time. Cameron believed that 'each generation revisits and restudies history in the light of its own problems and pre-occupations' and these works are equally interesting for illustrating the changing

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<sup>90</sup> B.L. Anderson and P.L. Cottrell, *Money and Banking in England, The Development of the Banking System* (London, 1974), p. 338.

<sup>91</sup> Anon., *Williams Deacon's 1771-1970* (Manchester, 1971); Edna Healey, *Coutts & Co, 1692-1992, The Portrait of a Private Bank* (London, 1992); Victoria Hutchings, *Messrs Hoare Bankers; A History of the Hoare Banking dynasty* (London, 2005); Hector Bolitho and Derek Peel, *The Drummonds of Charing Cross* (London, 1967).

<sup>92</sup> J.A.S.L. Leighton Boyce, *Smiths the Bankers, 1658-1958* (London, 1958).

<sup>93</sup> R.S. Sayers, *Lloyds Bank in the History of English Banking* (Oxford, 1957); M. Ackrill, and L. Hannah, *Barclays: The Business of Banking, 1690-1996* (Cambridge, 2001).

<sup>94</sup> Joslin, 'London Bankers in Wartime, 1739-84', pp. 156- 177; idem, 'London Private Bankers', pp. 167-186; F.T. Melton, 'Deposit banking in London 1700-1790', *Business History* 28 (1986), pp. 40-50; Black, 'Private Banking in London's West End', pp. 29-59.

<sup>95</sup> Peter Temin and Hans-Joachim Voth, 'Banking as an emerging technology: Hoare's Bank, 1702-1742', *Financial History Review* 13:2 (2006) pp. 149-178; Anne Laurence, 'The emergence of a private clientèle for banks in the early eighteenth century: Hoare's Bank and some women customers', *ECHR* 61:3 (2008) pp. 565-86.



approaches to writing banking history over the last century.<sup>96</sup> Industry and finance was a dominant topic of economic history in the 1950s and 1960s. It ignores that commerce and investments in land were equally significant opportunities for the banks; banking 'is liable to be misunderstood if it is approached primarily from the angle of industrial finance'.<sup>97</sup> Historical work has again turned its attention to the commercial world. Chapman argues convincingly that writing about parts of the economy solely in relation to the staple industries of the Industrial Revolution became untenable when growth figures for these staple interests were revised. This encouraged a 'traditional British interest in trade and finance'.<sup>98</sup> Another impetus for re-engagement with Britain's commercial past can be found in the work of Rubinstein, who argued that Britain had always been a commercial nation in response to the 'cultural critiques' of British economic performance that emerged from the 1960s to the mid-1980s that bemoaned a loss of industrial spirit. Thus:

Britain's was *never* fundamentally an industrial and manufacturing economy; rather, it was *always*, even at the height of the industrial revolution, essentially a commercial, financial, and service-based economy whose comparative advantage always lay with commerce and finance.<sup>99</sup>

This interpretation is built upon the work of Crafts and Cain and Hopkins, and focused on the haphazard nature of industrialisation and the significance of London and provincial entrepôts to the economy. He goes so far as to accuse historians and others of having developed a 'manufacturing fetishism', which was unjustified.<sup>100</sup> This work is however focused on the later nineteenth and twentieth centuries and further information confirming the nature of this commercial society in the eighteenth century would be desirable.

While historians have reconsidered some aspects of the eighteenth century, such a 'commercial' revision of the history of English banking at that time has failed to take place. Cottrell and Bowen in 1997 still bemoaned the impact of 'the temporal and conceptual strait-jacket' of industrialisation on banking history.<sup>101</sup> They argue that banking instead grew as 'a cornerstone of the gentlemanly order which by no means excluded industrial activity but which regarded it as only a part of a broad interrelated series of economic activities'.<sup>102</sup> Yet our understanding of banking in this period continues to be dependent upon the three seminal works of Clapham, Pressnell and Cameron, together with contributions from Checkland and Munn on Scotland.<sup>103</sup> Both Pressnell and Cameron's

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<sup>96</sup> Cameron, *Banking in the Early Stages of Industrialization*, p. 4.

<sup>97</sup> Joslin, 'London Private Bankers', p. 185.

<sup>98</sup> Stanley Chapman, *The Rise of Merchant Banking* (London, 1984), p. 1.

<sup>99</sup> W.D. Rubinstein, *Capital, Culture and Decline in Britain 1750-1990* (London, 1993), chapter 1, especially pp. 24-6.

<sup>100</sup> *Ibid.*, pp. 43-4.

<sup>101</sup> H.V. Bowen and P.L. Cottrell, 'Banking and the evolution of the British economy, 1694-1878' in A. Teichova et al (eds.), *Banking, Trade and Industry. Europe, America and Asia from the thirteenth to the twentieth century* (Cambridge, 1997), pp. 89-95.

<sup>102</sup> *Ibid.*, pp. 93-5.

<sup>103</sup> Clapham, *The Bank of England*; Pressnell, *Country Banking*; Cameron, *Banking in the Early Stages of Industrialization*; Munn, *The Scottish Provincial Banking Companies*; S.G. Checkland, *Scottish Banking: A History, 1695-1986* (Glasgow, 1975).

work are explicitly tied to industrialisation, although Pressnell's work does consider broader themes as well. In a nation that was overwhelmingly commercial and where growth in trade volumes are known to have been significant, as indicated above, it is remarkable how little emphasis has been placed on commercial finance. The finance of these activities was clearly dominated by the provision of credit, normally via the bill of exchange.<sup>104</sup> A full consideration of this topic will follow in due course. However it should be noted here that the only really successful attempt at discussing the links between banking and commerce was made by Jacob Price.<sup>105</sup>

That the banking system of the time was not ideal in fostering industrialisation (or economic growth) also sits uncomfortably with the opinions found in the earliest banking histories, which date back to the Victorian era. The first historian of Smiths' Bank suggested that the 'recent amalgamation of private banks with joint-stock institutions tends to remove the identity of banking houses which have contributed to some degree towards building up the nation's prosperity'.<sup>106</sup> Crucially for this discussion, the belief in the inherent utility of the banks and their contribution to economic and commercial growth are quite clear from this statement. This sentiment was not particularly unique. In 1867, Baron Benas could write that 'of all present institutions for the assistance and development of trade and commerce, none have attained so prominent an importance as banking'.<sup>107</sup> Some regional studies on banking have a better opinion on the significance of provincial banks than is implied in the more mainstream literature.<sup>108</sup> A few authors have also continued to see the system that emerged in a more positive light. Thus Lane focuses on the generally good character and capabilities of the early private bankers. Despite the financial crises and bank failures, the eighteenth century to his mind was 'well adapted to the needs of the time'.<sup>109</sup>

### III

While the contribution of banking to economic growth is an important topic, it is not the only way to approach banking history. R.O. Roberts noted that it is also useful to examine banking systems to allow historical comparisons, both between regions and internationally: the nature of the system is hence of interest in its own right.<sup>110</sup> The most important recent contribution of this type has been Grossman's study of commercial banking, examining the development of joint-stock banks in different countries over a period of 200 years. While it is interested in the links between banking and economic development, it is primarily

<sup>104</sup> On the importance of credit in trade, see for example, Peter Mathias 'Risk, credit and kinship in early modern enterprise', in John J. McCusker and Kenneth Morgan (eds.), *The Early Modern Atlantic Economy* (Cambridge, 2000), pp. 15-35.

<sup>105</sup> Jacob M. Price, *Capital and Credit in British Overseas Trade: The View from the Chesapeake, 1700-1776* (London, 1980), especially chapters 5 and 6.

<sup>106</sup> H.T. Easton, *The History of a Banking House, Smith, Paynes and Smith's* (London, 1903), pp. ix-x.

<sup>107</sup> Baron Louis Benas, *An outline of the origin and development of banks and financial institutions* (Liverpool, 1867), p. 3.

<sup>108</sup> Pat Hudson, 'The Role of Banks in the Finance of the West Yorkshire Wool Textile Industry, c. 1780-1850', *The Business History Review* 55.3 (1981) pp. 379-85, 401-2.

<sup>109</sup> Lane, 'The Fathers of English Banking' pp. 194-7.

<sup>110</sup> R.O. Roberts, 'Banks and the economic Development of South Wales before 1914' in Colin Barber and L.J. Williams, *Modern South Wales: Essays in Economic History* (Cardiff, 1986), p. 65.

seeking to understand the evolution of banking systems over time.<sup>111</sup> A second function of this thesis is to provide an analysis similar to that of Grossman's work but devoted to the understanding of a private banking system in England. This will allow a consideration of the differences in the development of joint-stock and private banking systems and hence address the question of whether different types of ownership influence the development of the system as a whole. At the heart of Grossman's argument stands a stylised curve of bank development over time, which he argues represents a fairly standard pattern of commercial banking development. His work seeks to explore the reasons behind the shape of the curve, in particular the reasons for the shrinking of the number of banks, especially through financial crises and mergers.<sup>112</sup> In contrast this work focuses on the upward part of the curve, as a new banking system emerges. The context for the evolution of English banking can be identified with the financialisation of the economy, a development that went beyond just banking and was visible in aggregate in the rough national statistics previously presented in Table 1. Financialisation has a number of different meanings, but in this context is used to encompass 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies'.<sup>113</sup> There is no standardised path and the difference to emerge between the Anglo-Saxon market-based model compared to the traditional view of the German bank-based model is noteworthy.<sup>114</sup>

The increasing prominence of financial institutions within eighteenth century England is undeniable. One can see this for example in Supple's opinion that the creation of large insurers such as the Royal Exchange was dependent upon the appearance of 'specialists and of more sophisticated procedures in the London money and capital markets', while acknowledging that these new corporations also encouraged further specialisation.<sup>115</sup> It has already been noted that one of the major features of the eighteenth century was the growing capital market, based around British government debt. These capital markets have tended to be studied from the perspective of joint-stock companies or governments that used them for access to capital, or the broking and exchange institutions that formed the physical market itself.<sup>116</sup> But bankers could assist in the formation and expansion of these

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<sup>111</sup> Grossman, *Unsettled Account*, p. 9.

<sup>112</sup> *Ibid.*, pp. 16-27.

<sup>113</sup> G.A. Epstein, *Financialization and the World Economy* (Cheltenham, 2005), p. 3. For an overview of the use of financialisation see Costas Lapavistas, 'Theorizing financialization', *Work, Employment and Society* 25.4 (2011), pp. 611-626. It is noteworthy that many of these definitions imply that finance has come to form too bigger part of the economy, an implication not embraced in this study. A similar, more neutral, definition can be found in Simon Mollan and Randal Michie, 'The City of London as an international Commercial and Financial Center since 1900', *Enterprise and Society* 13.3 (2012), pp. 1-3.

<sup>114</sup> For an overview of the debates concerning the different systems in England and Germany, see Michael Collins, 'English bank development within a European context, 1870-1939', *ECHR* 51.1 (1998), pp. 1-6.

<sup>115</sup> Barry Supple, *The Royal Exchange Assurance, A History of British Insurance 1720-1970* (Cambridge, 1970), p. 12.

<sup>116</sup> See for example R.C. Michie, *The Global Securities Market, A History* (Oxford, 2006), chapter 2; idem, *London Stock Exchange: A History* (Oxford, 1999), chapter 1; Ann M. Carlos; Karen Maguire and Larry Neal, 'A knavish people. . .': London Jewry and the stock market during the South Sea Bubble', *Business History* 50.6 (November 2008) pp. 728-48; J.F. Wright, 'The contribution of

markets; or alternatively benefit from them. According to Karl Marx 'the national debt has given rise to joint-stock companies, to dealings in negotiable effects of all kinds, and to agiotage, in a word to stock-exchange gambling and the modern bankocracy'.<sup>117</sup> While not entirely accurate, dealings in negotiable instruments for example pre-dating the national debt, the broader point that banking can be linked to developments in state finance is not unreasonable. Most obviously bankers were investors in this debt, both in their own right and on behalf of their clients.<sup>118</sup> The extent of these links will form a key point of the subsequent work.

One can equally point to an increasingly important money market, which in England was centred on the discounting of bills.<sup>119</sup> Money markets are in essence a source of short-term lending, and intimately linked to banking and credit networks. The price of this credit is determined through the interaction of a number of actors within a system or network. In a modern financial system, one expects banks to stand at the heart of the money markets. Some progress had been made in this direction by the end of the seventeenth century as some interbank clearing (and short-term lending) was taking place.<sup>120</sup> In due course banks would feature ever more closely in this environment and fluctuations in the money market would become more important to business in general. A substantial proportion of the discounting business in London was internalised within the private banks.<sup>121</sup> At the end of the century, specialised dealers in the discounting of bills were beginning to operate, the most famous of whom being Thomas Richardson. This business seems to have originated within the banks, Richardson having spent his early years as the clerk of Smith & Holt, bankers of London who were also bill brokers of the Gurneys in Norwich.<sup>122</sup> However for now it is sufficient to note that these developments are indicative of the growing volume of financial transactions and the greater specialisation within the financial sector that this permitted.

It is not altogether clear when this process of financialisation started. Some authors have claimed a degree of financial integration had already begun to take shape in the seventeenth century, which amounted to an actual national system of credit and maybe even banking. This nationwide English banking system identified by the mid-seventeenth century consisted of a network based upon the inland bill that encompassed London,

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overseas savings to the funded national debt of Great Britain, 1750-1815', *EcHR* 50.4 (1997), pp. 657-74.

<sup>117</sup> Cited in Mary Poovey, *The Financial System in nineteenth-Century Britain* (Oxford, 2003), p. 222. Agiotage refers to securities and exchange dealings, with a degree of speculation implied (i.e. it is equivalent to stockjobbing).

<sup>118</sup> See for example Peter Temin and Hans-Joachim Voth, 'Riding the South Sea Bubble', *American Economic Review* 94.5 (2004), pp. 1654-1669.

<sup>119</sup> King, *History of the London Discount Market*, pp. 1-26; K.F. Dixon, 'The development of the London money market, 1780-1830', unpublished PhD thesis (University of London, 1962). King's book is the seminal work on the discount market.

<sup>120</sup> Quinn, 'Goldsmith-Banking: Mutual Acceptance and Interbanker Clearing', pp. 411-32.

<sup>121</sup> J.M. Price 'The Bank of England's Discount Activity and the Merchants of London, 1694-1773', in J.M. Price, *Overseas Trade and Traders, Essays on Some Commercial, Financial and Political Challenges facing British Atlantic Merchants, 1660-1775* (Aldershot, 1996), pp. 112-3.

<sup>122</sup> King, *History of the London Discount Market*, pp. 18-20; Dixon, 'The development of the London money market', pp. 42-51.

Ipswich, Hull, Halifax, Newcastle, Portsmouth and Manchester, to name but a few. This then was indeed a national network, but whether it was really a genuine banking network is more debatable. Importantly these networks of credit had been based on trading networks – the goldsmith-bankers of London were in this argument a later addition.<sup>123</sup> This reflects the fact that the financialisation of the economy was dependent upon the development of a degree of expertise in managing financial businesses and institutions. Banks for example needed to deliver an adequate return to their owners without taking undue risk. This involved a learning process, an aspect of their emergence that has been explicitly emphasised in some of the recent literature.<sup>124</sup>

Equally it is possible to argue quite how far advanced this process of financialisation was by the end of the eighteenth century. With regards to banking, Scammell has claimed that 'when the nineteenth century opened the banking system in Britain could scarcely be described as a system at all'.<sup>125</sup> This economist's opinion was that banks were prevalent throughout most of the country, but that in their activities they were small and essentially localised, simply conducting 'day-to-day monetary transactions'.<sup>126</sup> Bowen and Cottrell are similarly sceptical that the collection of businesses at the end of the eighteenth century amounted to a genuine banking system.<sup>127</sup> John Rule paints the picture of a disjointed and fragmented industry by describing the existence of such a 'national banking system' as 'debatable'.<sup>128</sup> On the other hand the work of Iain Black tends to suggest that this financialisation had been significant, for it helped to create a genuinely national banking system and an integrated national economy.<sup>129</sup> A looser definition of a financial system is that 'no single institution or group of institutions worked in isolation from others'.<sup>130</sup> If this is what is meant, then the developments of the eighteenth century were indeed substantial and studies of financial crises would tend to suggest that they were no longer isolated by the end of the century.<sup>131</sup>

This of course highlights an issue where care is required. Financialisation was a process, and outright modernity is not required for the process to hold true. On a basis such as Scammell suggested, it is clear that eighteenth century banking falls short of being a 'system', as few of the features he expects were extant, such as a clearly defined lender of last resort or a monopolised note-issue. However his conclusions maybe reflect an anachronistic understanding of what the purpose of a banking system originally was. The uses of the financial system for managing macro-economic fluctuations or for improving

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<sup>123</sup> Kerridge, *Trade and Banking in Early Modern England*, p. 65-6.

<sup>124</sup> Temin and Voth, 'Banking as an emerging technology', *passim*; Melton, 'Robert and Sir Francis Gosling', *passim*; for non-bank financial institutions, see Ann M. Carlos, Jennifer Key and Jill L. Dupree, 'Learning and the Creation of Stock-Market Institutions: Evidence from the Royal African and Hudson's Bay Companies, 1670-1700', *The Journal of Economic History* 58.2 (1998), pp. 318-44.

<sup>125</sup> W.M. Scammell, *The London Discount Market* (London, 1968), p. 115.

<sup>126</sup> *Ibid.*, p. 116-7.

<sup>127</sup> Bowen and Cottrell, 'Banking and the evolution of the British economy', p. 92.

<sup>128</sup> John Rule, *The Vital Century, England's Developing Economy, 1714-1815* (London, 1992), p. 300.

<sup>129</sup> See in particular Black, 'Geography, political economy and the circulation of finance capital', pp. 366-84.

<sup>130</sup> Poovey, *The Financial System in nineteenth-Century Britain*, p. 1.

<sup>131</sup> Julian Hoppit, 'Financial crises in eighteenth century England', *ECHR* 39.1 (1986) pp. 39-58.

the access of firms to finance may not have been the prime purpose of the system, or even the most pressing need of the economy at the time. To criticise it for simply carrying out basic monetary transactions, would be unduly harsh if this is was the most pressing service that customers required of their bankers. An effective payment system is surely a key part of a financial system, although it can sometimes be taken for granted. This emphasises the fact that any assessment of the system must be based on a clearer understanding of the purposes of eighteenth century bankers.

The advancement of the influence of finance can perhaps best be seen in the fortunes of London. The later stages of the eighteenth century witnessed the growth of the City of London as a major financial centre that was capable of challenging Amsterdam in terms of global leadership.<sup>132</sup> It is hard to believe that a disjointed and underperforming banking system could co-exist with a leading international financial centre. To understand fully the increasing importance of London it is surely essential to understand the individual parts that made up the City of London. This tends to reinforce the need to undertake a more detailed analysis of the City banks and, equally importantly, to understand the role of early merchant banks and merchant financiers.

#### IV

In conclusion it has been argued that academic studies of financial systems, and banking specifically, suggest that both are important drivers of economic growth. However definitively proving this link is difficult even for periods where the data sources are good. Equally it is not always clear that the transmission mechanisms between banking and the economy are properly understood. These general points are even more applicable to the specific instance of England in the eighteenth century, where the English banking system has been particularly poorly studied. Generalisations about the role of the banks and the overall stability of the system that might not be entirely justified have become accepted and are thus worthy of re-examination. The study of eighteenth century banking in the modern literature has become too closely connected with industrialisation, at the expense of banking's links to the commercial world and that some rebalancing in the emphasis of the impact of banking is required. Particular shortcomings arise on the subject of London bankers, in particular those operating from Lombard Street and serving the commercial interest. The criticisms of the structure of the eighteenth century banking system also require more rigorous analysis. It should be understood that this is not a direct study of the link between economic growth and banking, although some of its conclusions will be relevant to this question. Instead it is an attempt to understand aspects of the financialisation of the eighteenth century economy, and how this relates to the shape of banking development. To answer fully these questions within the scope of this thesis is probably unrealistic, however it is hoped that it will provide a picture and suggestive answers that will contribute towards further work in the field.

This thesis seeks to address these problems over the period from the formation of the Bank of England in 1694 to the Suspension of Cash Payments in 1797. The Bank was crucial in

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<sup>132</sup> Anne Carlos and Larry Neal, 'Amsterdam and London as financial centres in the eighteenth century', *Financial History Review* 18.1 (2011), pp. 37-9.

influencing the shape of the banking industry, through the constraints contained in the Bank's charter, particularly through its restrictions the size of banking partnerships to a maximum of six individuals. The prohibition on joint-stock banking meant that provincial banks were run alongside the other business interests of their partners, and this has been argued to have influenced the subsequent tradition of English banking.<sup>133</sup> However it was by no means the sole influence on the banking industry, and as such, some consideration of the developments during the Restoration period are required. It can be argued however that for one hundred years or so following 1694, the banking industry had been evolving under one other consistent principle: paper money had to be convertible to gold if the user required this. The suspension in 1797 therefore represented a decisive break in continuity, requiring an adjustment in the banks' *modus operandi*, explaining the decision to end the study at this point. Despite the restoration of the gold standard in 1819, it can be argued that the system had been fundamentally changed and the approach therefore reflects the fact that banking is shaped to a significant degree by the regulatory environment.

All studies have some sort of inspiration and overall ambitions. The closest one could come to a model for this work is maybe Chapman's *Merchant Capitalism*.<sup>134</sup> In some respects this thesis is a work of 'historical synthesis', drawing together many loose ends of historical analysis to form a larger whole. This partly reflects the nature of the existing historical literature, much of which was written from an institutional perspective. Aside from trying to draw together a sometimes diffuse literature, there is of course the need for a research element. The main focus of the primary research has been upon London bankers, who form probably the least well-documented sub-component of the eighteenth century banking system. More specifically this included work on the early records of Drummond's, Child's, Barclays, Goslings, Lubbock's and Baring. The mixed quality of the numerous histories of individual banks has been alluded to; they do however all offer important sources of evidence and it would have been impossible to write this thesis without reference to them. This ultimately reflects the nature of theses, which seek to build upon the work of others to generate original contributions.

This study is also guided by a statement written by Eric Hobsbawm, who maintained that historians should write for an audience beyond other historians, given the finance received from outside sources. To some extent there is an attempt to set 'the roots of the present world back to that period, in so far as it is reasonable to do so'.<sup>135</sup> This is not to describe some triumphant march of progress, but a simple recognition of the continuity and gradual evolution of society and culture. The modern financial system has directly evolved from the eighteenth century, and understanding its origins can help add to our understanding of the modern system.

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<sup>133</sup> The impact of the restrictions on private banking through the Bank's charter can be found in much of the literature, for example, Pressnell, *Country Banking*, p. 12.

<sup>134</sup> Chapman, *Merchant Capitalism*, *passim*.

<sup>135</sup> Hobsbawm, *The Age of Capital 1848-1975*, pp. 9-10.

## Chapter 1: The origins of English banking, c. 1660-1700: Revolution or Evolution?

Although the focus of this thesis is on the eighteenth century, it is necessary first to consider the positioning of English banking both in its own right and within the broader financial system at the onset the century. The publication of Dickson's important *Financial Revolution* has generated a substantial body of historical work that has focused on the discontinuity in English financial development at the end of the seventeenth century. This in turn has generated a response in works that have focused on the longer-term continuities in British financial development.<sup>1</sup> Running alongside this broad debate are questions over the precise origins of English banking. This chapter aims to provide an overview of these important historical debates and then addresses the question of whether the two debates are related. It seeks therefore to provide an answer to the question of whether the financial revolution of the 1690s matters in the context of English banking. In seeking to engage with this broader question, this chapter will not extensively use primary material. This reflects two principal points: firstly, the significance of the historical debate on the wider implications of the financial revolution, which justifies the consideration of this topic in some detail. Secondly, it reflects the fact that the history of seventeenth century banking, thanks in part to recent American research, is better studied than that of the eighteenth century.<sup>2</sup> The secondary literature on the developments in English state finance and the securities market is even more extensive.<sup>3</sup>

I

To understand early banking, it is essential to have some grasp of the nature of England's credit economy. Throughout the seventeenth century economic transactions had been governed by personal credit relationships. Finn argues that the literature shows a credit economy, 'shaped by both dense networks of social relations and intrinsically unstable conceptualisations of the individual self', rather than markets based on an anonymous cash nexus as conceived by economists from Smith to Marx.<sup>4</sup> Credit was determined by character, which itself was an 'unstable construct[s] contingent upon dress, manner, verbal facility and connection', drawing 'upon the perceived verities of social capital rather than upon the monetary values of the cash nexus alone'.<sup>5</sup> This encouraged the use of a specific language of honour and reason in commercial transactions that was designed to show ones creditworthiness, which can be traced through both the seventeenth and eighteenth

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<sup>1</sup> For a short summary see H.G. Roseveare, *The Financial Revolution, 1660-1760* (London, 1991).

<sup>2</sup> See for example Melton, *Sir Robert Clayton*, passim; Quinn, 'Goldsmith-Banking: Mutual Acceptance and Interbanker Clearing', pp. 411-32.

<sup>3</sup> See for example Dickson, *Financial Revolution*, passim; Neal, *Financial Capitalism*, passim; Michie, *London Stock Exchange*, chapter 1, pp. 15-36.

<sup>4</sup> Margot C. Finn, *The Character of Credit, Personal Debt in English Culture, 1740-1914* (Cambridge, 2003), p. 12.

<sup>5</sup> *Ibid.*, p. 320.



centuries.<sup>6</sup> Although Finn's work tended to understate the familiarity of the population with cash, with some of her reading regarded as 'careless, ill-informed or inept', the importance of credit should not be underestimated.<sup>7</sup> In practice, cash and credit were linked, and the growth of a paper medium of exchange was related to both, given that paper money relies on the credit of the issuer to gain currency. Indeed, Muldrew's work argues that most transactions were carried out only on paper and cleared centrally.<sup>8</sup>

Muldrew has argued that it was only from 1720 onwards that a shift in the economy, where producer and consumer were increasingly separated, began the decline in the culture of credit. The shift can be attributed to developments during the period from 1694 to 1720, including the formation of the Bank of England and the broader investment opportunities that it facilitated, as well as changes in the patterns of legislation and the development of small banks and corporate institutions. This did not reduce the incidence of credit transactions, but changed their nature.<sup>9</sup> These changes were linked to fundamental structural changes that were taking place as obligations were contracted over longer distances and markets became more national and were reflected by writers like Adam Smith, who increasingly emphasised the significance of the individual rather than the community in the market place.<sup>10</sup> It led to a more abstract approach to credit, which can be linked for example to the growing understanding of the importance of probability in determining default.<sup>11</sup> However if the culture of credit was changing, and its use was being somewhat institutionalised, then it should be acknowledged that it continued to be an essential part of economic life throughout the eighteenth century. In particular, credit instruments, as well as the ability judge someone's credit accurately, remained an important feature of commercial and financial life.<sup>12</sup>

While the English economy was highly dependent upon personal credit, the second half of the seventeenth century did see some formal financial intermediaries emerge, including the first English deposit banks during the Protectorate. Some goldsmiths, merchants and scriveners, such as Robert Vyner, were carrying out some banking functions, including the acceptance of deposits, discounting bills and acting as factors for provincial merchants before the Civil War, making the goldsmith-banker 'a reality by at least the reign of James I'. However it was in the 1650s that banking really emerged as a specialised trade.<sup>13</sup> The infamous raid on the Mint at the Tower of London, which resulted in £130,000 of bullion deposited there by merchants being confiscated by the King, is often cited as a catalyst for

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<sup>6</sup> Nuala Zahedieh, *The Capital and the Colonies, London and the Atlantic Economy, 1660-1700* (Cambridge, 2010), pp. 93-6, a language she describes as 'self-puffery'; John Smail, 'Credit, Risk and Honor in Eighteenth-Century Commerce', *Journal of British Studies*, 44.3 (July 2005), pp. 446-50.

<sup>7</sup> Olive Anderson, 'Review of Finn, *Character of Credit*', *English Historical Review* 119 (2004), p.1001.

<sup>8</sup> Muldrew, *Economy of Obligation*, p. 101.

<sup>9</sup> *Ibid.*, pp 328-9.

<sup>10</sup> Craig Muldrew, 'Interpreting the Market: The Ethics of Credit and Community Relations in Early Modern England', *Social History* 18.2 (1993), pp. 180-83.

<sup>11</sup> Muldrew, *Economy of Obligation*, p. 331.

<sup>12</sup> Smail, 'Credit, Risk and Honor in Eighteenth-Century Commerce', pp.442-5; Jacob M. Price, 'What Did Merchants Do? Reflections on British Overseas Trade, 1660-1790', *Journal of Economic History* 49.2 (1989), pp. 273-76.

<sup>13</sup> Ben Coates, *The Impact of the English Civil War on the Economy of London, 1642-1650* (Aldershot, 2004), pp. 84-6.

this growth.<sup>14</sup> While the reasoning is plausible, evidence supporting a direct connection is not clear. Indeed, it took a decade for an alternative, private solution to the storage of bullion to emerge. More broadly, the origins of banking can be linked to general economic change in this period. Richards for example argues that ‘the genesis of modern capitalism made the monetary specialist indispensable and there emerged as pioneers of a new financial regime the merchant, the broker, the scrivener and the goldsmith, pioneers of a credit technique which developed so rapidly under the aegis of the goldsmith in the age of the later Stuart’.<sup>15</sup>

After the Restoration, the number of early goldsmith-bankers grew rapidly, an indication of their increasing significance. A number of prominent goldsmith-banking houses emerged, with Edward Blackwell and Sir Robert Vyner foremost amongst them. Melton’s research for the period 1670-1700 provides indicative data for the number for deposit bankers in London. He argues that at least 93 goldsmith-bankers can be accounted for during this 30 year period. However achieving longer-term continuity appears to have been a challenge, for of the list of 1670, only four survived through to 1700, of which one failed in 1701.<sup>16</sup> Of the thirty nine establishments existing in 1700, he argues that only five would achieve lasting permanence: Hoare’s, Martin’s, Child’s, Coutts’ and Hankey’s.<sup>17</sup> Churn rates were high, as can be seen in Table 2.

	1670	1677	1687	1700
Total Banks	29	50	37	39
Banks surviving from previous list		18	25	18
Survival rate		62%	50%	49%
Total new banks		32	12	21

**Table 2: Banking in seventeenth century London (Source: Melton, *Sir Robert Clayton*, pp. 233-42)**

It would be incorrect to attribute this solely to business failure. Although there were obviously failures, such as Edward Backwell, retirement and voluntary exits also played a role, as many of these banks appear to have been owned only by one proprietor. Even when a bank was structured as a partnership, succession could prove problematic, as can be seen in the example of Clayton’s bank, where the planned successors to the management of the firm predeceased Clayton and no other suitable candidates emerged.<sup>18</sup>

Banking in this period was based around three instruments all of which pre-dated formal banking, deriving instead from personal credit transactions: the bill (either a foreign bill of exchange or an inland bill); the order, early precursor of the cheque; and notes (either bankers’s notes or promissory notes). Both the bill and the note were a contract, while the

<sup>14</sup> For the raid on the Mint see Douglass C. North and Barry Weingast, ‘Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth-Century England’, *The Journal of Economic History* 49.4 (1989), p. 812; C. Hill, *The Century of Revolution 1603-1714* (2<sup>nd</sup> edition, Walton, 1980), p. 91.

<sup>15</sup> Richards, *History of Banking in England*, p.22.

<sup>16</sup> Melton, *Sir Robert Clayton*, p. 234.

<sup>17</sup> Ibid., pp. 235-242; Melton, ‘Robert and Sir Francis Gosling’, pp. 66-7.

<sup>18</sup> Melton, *Sir Robert Clayton*, pp. 208-9. This refers to the death of John Morris and Robert Clayton, the elder Robert Clayton’s nephew, who was being groomed to run the bank.

cheque was not.<sup>19</sup> Of these, the most important was probably the bill, which had initially been developed in the sixteenth and seventeenth century to finance trade, but the use of which by the end of the seventeenth century had become ubiquitous throughout England. The bill of exchange originated in international trade because of the inconvenience and risk of loss of shipping bullion over longer distances. Although it originated in 13<sup>th</sup> century Venice, its use was originally most common in the major fairs of Europe.<sup>20</sup> The advantage of the bill was that it was transferable through time and distance. Bills also became negotiable, allowing the transfer of the amount due to another party by endorsement. Underlying this concept was a gradual realisation that it was possible that written acknowledgements of debts might be both transferred and sold.<sup>21</sup> The bill simplified the conduct of long-distance trade, although the potential for fraud and loss was not completely negated and the system depended on an effective network of people to accept the bills.<sup>22</sup> The requirements for credit in English commercial life were expanding substantially throughout the seventeenth century. In London alone, the total value of imports increased from about £1.5 million in the 1621 to £3.5 million in the 1660s and £4.7 million in 1700.<sup>23</sup> Not only did imports increase in value, but also in nature, with an increasingly large proportion focused on colonies located in the New World, which required credit to be extended over a longer period of time.

Eventually the bill of exchange was also adopted for *internal* payments in commercial transactions. These inland bills could be found in many parts of the country, including Chester, Liverpool, Newcastle, Bristol and Norwich. London became the key city for the network of bills in circulation internally. Due to the fact that bills essentially involved suppliers receiving credit from purchasers, and the largest single purchasers were found in London, credit balances tended to accumulate there.<sup>24</sup> By the end of the seventeenth century the bill on London was not only the principal means of payment between London and the provinces, but also between towns in different regions.<sup>25</sup> Domestically, the inland bill was not a completely legally secure contract until, in 1698, the Payment of Bills Act allowed the protest of inland bills in order to recover debts. Finally inland bills and promissory notes received definite legal protection from the state in 1704, made perpetual in 1708, when the Promissory Notes Act confirmed their legal transferability.<sup>26</sup> However their significance can be seen in their common usage well before this point. From a banker's perspective their crucial quality was that they were discountable, offering the means of employing money and making a profit. While the bill of exchange might be the most notable financial instrument, two others were also developed. Firstly there was the

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<sup>19</sup> Ibid., pp. 97-123; Nicholas Mayhew, *Sterling, The Rise and Fall of a Currency* (Bath, 1999), pp. 108-9; see also Stephen Quinn and William Roberds, 'The Evolution of the Check as a Means of Payment: A Historical Survey' *Federal Reserve Bank of Atlanta Economic Review* 93.4 (2008), pp. 1-28.

<sup>20</sup> Charles P. Kindleberger, *A Financial History of Western Europe* (London, 1984), pp. 39-41; Melton, *Sir Robert Clayton*, pp. 110-13.

<sup>21</sup> Richards, *Early History of Banking*, pp. 44-8.

<sup>22</sup> Melton, *Sir Robert Clayton*. pp. 110-13.

<sup>23</sup> Ralph Davis, *English overseas trade, 1500-1700* (London, 1973), p.55.

<sup>24</sup> Kerridge, *Trade and Banking in Early Modern England*, pp. 33-4.

<sup>25</sup> Pressnell, *Country Banking*, p. 77.

<sup>26</sup> Hill, *Century of Revolution*, p. 232; A.G.E. Jones, 'The Banks of Bath' *Notes and Queries* (1958), p. 277; Nevin and Davies, *London Clearing Banks*, p. 20.

cheque or draft. The cheque was (and remains) a request to transfer money or future income to someone else; it is in its simplest form 'so natural it hardly requires an official pedigree'.<sup>27</sup> The final important innovation in paper currency was the development of the banker's note. Initially this was a promise by the banker to repay a deposit made to him to a given individual, i.e. a promissory note. However, its nature changed in the second half of the seventeenth century, so that rather than being identified on a one-to-one basis with the depositor, bank notes became a generic claim upon the banker: 'deposits became fully the banker's'.<sup>28</sup> The consequence was to allow more flexibility on the part of both banker and depositor. This development was incredibly important as it marks the development of the banker into a specialist intermediary, rather than a simple moneylender. For example, the government financier Sir Stephen Fox gathered deposits at interest (roughly £150,000), which he then lent out as private advances, often to members of the court. From 1686, the minimum value of such lending totalled £130,000.<sup>29</sup> However this activity was not that of a banker, but rather that of a broker or moneylender, given that the deposits remained tied to individuals and there was no issuance of notes.

Deposits consequently mattered, and the shift of some of the London goldsmiths into the profitable niche of banking was based partly upon the realisation that they could lend out not only their own capital, but also other people's capital that had been placed in trust in their hands. Some commentators and modern economists have argued that such use of customer deposits was an act of theft or fraud by the bankers, and that fractional reserve banking was carried out without the customer's knowledge or approval. The evidence however tends to indicate this not to have been the case.<sup>30</sup> In any event, by the time of the Stop on the Exchequer, these goldsmith-bankers had developed a notable base of depositors. The goldsmith-banker John Lindsay's list of people who lost money through the 'Stop' totalled 201 with combined losses of £91,000, equating to an average customer balance of £453. Using Lindsay's average across all the goldsmith-bankers impacted by the crisis would imply that there were around 2,500 people with bank accounts at organisations affected by the 'Stop'.<sup>31</sup> Backwells ledgers for 1664-5 show average deposits across 1,374 clients of £520, while Vyner's clients in the 1670s averaged deposits of £536.<sup>32</sup> Indeed Backwell's client numbers suggest that the overall estimate of 2,500 depositors looks too low. This lends substance to Richards' claim that bankers in this period were 'patronised by many thousands of provincial and metropolitan customers'.<sup>33</sup> Nor were these customers confined to London; about one third of Vyner's customers were from the provinces, with strong representation from more distant counties, including, Wiltshire, Yorkshire and Lincolnshire. These deposits tended to be slightly larger than those of London based customers. Customers were socially diverse, including the titled aristocracy

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<sup>27</sup> Clapham, *Bank of England*, p. 6.

<sup>28</sup> Melton, *Sir Robert Clayton*, p. 107.

<sup>29</sup> Christopher Clay, *Public Finance and Private Wealth, The Career of Sir Stephen Fox, 1627-1711* (Oxford, 1978), pp. 178-91.

<sup>30</sup> See for example George Selgin, 'Those Dishonest Goldsmiths', Working Paper (2011), pp. 1-6. <http://ssrn.com/abstract=1589709>

<sup>31</sup> J. Keith Horsefield, 'The "Stop of the Exchequer" Revisited' *ECHR* 35.4 (1982), pp. 526-7.

<sup>32</sup> Roseveare, *Financial Revolution*, pp. 19-20.

<sup>33</sup> Richards, *History of Banking in England*, p. 24.

(7.5%), merchants (7%), spinsters and widows (12%), tradesmen (24%) and the more simple gentry (43%).<sup>34</sup>

Banking gained prominence in this period because it provided solutions to a number of problems. Aside from providing a safe store for individuals to keep their money, they could also address one of the foremost challenges of the period, namely the inadequacies of the English coinage. To the economist, money is simply a means of simplifying the process of bartering in a market economy. Money can take any form, such as wood or shells, but generally precious metals such as gold or silver were used. Britain in the seventeenth century possessed a silver-based currency, controlled by the Royal Mint and the King-in-parliament. It faced two major challenges which encouraged the development of paper mediums of exchange: the inability to deal with fluctuations in the market price for silver and also the problems caused by frequent clipping of coin. These two factors combined to cause a persistent shortage of silver coins throughout the second half of the seventeenth century and the eighteenth century.<sup>35</sup> This was despite the attempts in the 1690s to solve the issues through a major recoinage. This had originated from the seventeenth century 'crisis over money' when people observed that although the value of a coin was supposedly determined by its silver content, it would tend to trade at face value even if it had been clipped and had hence lost up to 50% of its silver content. In turn this had prompted considerable intellectual debates over the coinage.<sup>36</sup> The recoinage was ultimately undermined because it was implemented on the basis of flawed thinking on the part of John Locke, who insisted on carrying out the recoinage at an inflated silver price. This contrasted with William Lowndes, who took the view that the current official value of the coin was too high and that its silver content should be reduced to 80%.<sup>37</sup> Undertaking the recoinage on a flawed principle meant that none of the problems were satisfactorily resolved, and as expected under Gresham's law, the undervalued coinage disappeared from circulation.

The consequent shortage of official coin for internal payments meant that it was necessary to supplement the official coinage from private sources.<sup>38</sup> Mayhew's estimates suggest that there were some £2 million worth of inland bills in circulation as de facto currency in 1700, alongside some £2 million worth of banknotes and £6 million of government tallies, a particularly expensive form of currency instrument. This compares with £9 million of silver and £8 million of gold coin.<sup>39</sup> The situation surrounding the coinage did not improve in the eighteenth century, a failure which has prompted the accusation that the English state was 'somnolent' over one of its most important functions.<sup>40</sup> Paper money thus became ever more significant, creating a complete transformation of the 'monetary character of the

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<sup>34</sup> Roseveare, *Financial Revolution*, pp. 19. London deposits averaged £487, country deposits £634.

<sup>35</sup> Mayhew, *Sterling*, pp. 78-81 and 91-4; Selgin, *Good Money*, Chapter 1.

<sup>36</sup> Mayhew, *Sterling*, p. 91; Joyce Oldham Appleby, *Economic Thought and Ideology in Seventeenth Century England* (Princeton, 1978), pp. 217-9.

<sup>37</sup> For a complete discussion of the recoinage see Appleby, *Economic Thought and Ideology*, pp. 219-25.

<sup>38</sup> For the persistence of the poor state of the currency, see for example B.L. Anderson, 'Money and the structure of credit in the eighteenth century', *Business History* 12.2 (1970), pp. 85-101.

<sup>39</sup> Mayhew, *Sterling*, p. 108. The country was effectively running a bi-metallic currency at this point.

<sup>40</sup> Clapham, *Bank of England*, p. 2.

country'. Bank notes in particular became increasingly important as the eighteenth century continued: by 1750 bank notes and deposits are thought to have grown to £10 million, subsequently reaching £17 million by 1775 and £30 million by 1800. Coin went from forming 80% of England's money in the 1690s to less than half by 1800, 'even if we exclude inland bills from our concept of money', which one should in most likelihood not.<sup>41</sup> The growth of credit and banking has led to the description of Britain in 1777, not unjustifiably, as a 'Paperwealth'.<sup>42</sup> This advancement in paper credit was furthermore largely a matter of private enterprise in which bankers, both in London and the provinces, played an important part.

While deposits appear to have been relatively readily available, a more problematic point from the bankers' perspective was finding suitable investment opportunities. Gold and silver were secure, but provided no return. The only body with a *chronic* shortage of funds in the Restoration period was the king. It was to him that early goldsmiths made most of their advances. For example Backwell's ledgers show that in 1664, 63% of the loans were made to the king on the security of the customs revenues.<sup>43</sup> Participation in government lending was potentially attractive, given that loans were often linked to tax revenues and should therefore have been relatively secure. On the other hand it was an inherently risky investment opportunity, given the historical fact of royal default, which was witnessed again during the Stop of the Exchequer, a defining economic moment of the Restoration period. Richards believed that the impact of the Stop was confined to the failure of a number of prominent banking firms as late as the 1680s.<sup>44</sup> Total losses are estimated to have been £1.3 million, of which just less than 75% was due to the three largest goldsmith-bankers (Vyner, Backwell and Whitehall).<sup>45</sup> Although the financial impact may have been manageable, it did mean that the state's ability to issue paper money or securities was impaired, especially if they were not interest bearing.<sup>46</sup> Inadvertently, the Stop also led to the creation of the nation's first funded perpetual securities, in the shape of annuities created for restitution of the banks' customers in 1677.<sup>47</sup> The episode highlights one of the major problems that faced restoration bankers: there was no dependable, 'risk-free' asset with sufficient liquidity. Part of the significance of the Financial Revolution of the 1690s to the development of banking lay in providing a solution to this problem. Equally, although

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<sup>41</sup> Ibid., p. 110-1. There was some inflation in the second half of the eighteenth century, however this was relatively benign.

<sup>42</sup> *London Magazine*, 1777, p. 523, cited in Paul Langford, *A Polite and Commercial People, England 1727-1783* (Oxford, 1998) p. 568.

<sup>43</sup> Roseveare, *Financial Revolution*, p. 20. He also argues that this ability to lend to the King at 10% interest justifies some of the criticisms of bankers in this period, as it allowed them an unfair advantage when competing for deposits (all other lending been capped by the usury laws at 6%).

<sup>44</sup> Richards, *History of Banking in England*, pp. 25-6.

<sup>45</sup> Horsefield, 'The "Stop of the exchequer"', pp. 516, 523-5.

<sup>46</sup> Clapham, *Bank of England*, pp. 12-3; Roseveare, *Financial Revolution*, pp. 21-3, argues that it completely ruined the credit of the crown.

<sup>47</sup> Roseveare, *Financial Revolution*, pp. 21-3; Horsefield, 'The "Stop of the exchequer"', pp. 518-523, provides additional information on these securities.

the Stop ended the banking careers of a number of prominent practitioners, it did not undermine the population's general appreciation of the advantages of banking.<sup>48</sup>

Opportunities for other forms of investment were expanding, as economic activity increased and new assets became available during the Restoration period. One area of particular significance was the changes in the land market during the latter half of the seventeenth century, which saw an increased turnover in the sales of land.<sup>49</sup> D.C. Coleman suggests that the changes in the estate market in the Interregnum and the Restoration periods – sequestration, fines, sales of crown land, royalist lands encumbered with huge debts after the restoration, burdens of land taxation, etc. - provide an answer to the question of explaining the increased work of 'the intermediaries of capital mobility - lawyers, scriveners, bankers and the like'.<sup>50</sup> This was an area in which scrivener banks, such as Sir Robert Clayton's, could excel. Scriveners' specialisation in petty legal contracts and expertise in conveyancing persuaded landed gentry to deposit money with them which was let out at interest.<sup>51</sup> Clayton's business was driven by the partners' knowledge of conveyancing and the technicalities of mortgages, as well as their insight into their customers' financial requirements.<sup>52</sup> For those desiring greater security, the mortgage deed was the preferable security on which to lend. Loans would be provided based upon detailed surveys of a customer's estate to assess its value and the verification of the deeds, ensuring it was free of other encumbrances that might damage the asset for the lender.<sup>53</sup> Clayton's bank successfully blended this specialisation in mortgages with the deposit taking function of a goldsmith-banker; it was not merely that of a brokerage. It was also a bank of substantial scale: by the 1650s, it had deposits of over £1 million, which continued to grow to a peak of over £1.8 million in 1675-7. The volume of loans granted increased from £27,700 in 1652-6 to over £332,000 by 1677-80.<sup>54</sup>

Other London scriveners of this period have been identified as proto-bankers. Mr Tuckey certainly acted as a financial agent in London for his clients, paying and receiving money, as well as making investments on their behalf. Despite the absence of information on the precise size of his business, it has been argued Tuckey may have been closer to the representative size of a scrivener business than Clayton, given that 'the scrivener did not normally operate on the grand scale'.<sup>55</sup> Yet it is not clear that he fully established himself as a banker, the evidence suggesting rather a role as a broker. Coleman's analysis suggests

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<sup>48</sup> William J. Ashworth, *Customs and Excise: Trade, Production and Consumption in England, 1640-1845* (Oxford, 2003), p. 27. The point is also apparent from Melton's work, *Sir Robert Clayton*, passim.

<sup>49</sup> While Habbakuk's assessment of the developments in the land market of the seventeenth century still stand, those for the eighteenth century have been subject to some criticism, see B.A. Holderness, 'The English Land Market in the Eighteenth Century: The Case of Lincolnshire', *ECHR* 27:4 (Nov., 1974).

<sup>50</sup> D.C. Coleman, 'London Scriveners and the Estate Market in the Later Seventeenth Century', *ECHR* 4.2 (1951), p. 229.

<sup>51</sup> Melton, 'Robert and Sir Francis Gosling', pp. 65-6.

<sup>52</sup> Melton, *Sir Robert Clayton*, pp. 77-9 and chapter 5; Coleman, 'London Scriveners and the Estate Market', pp. 223-6.

<sup>53</sup> Melton, 'Sir Francis and Robert Gosling', pp. 69-70.

<sup>54</sup> Melton, *Sir Robert Clayton*, pp. 229-232.

<sup>55</sup> Coleman, 'London Scriveners and the Estate Market', pp. 227-9.

that the scrivener was an exceptionally specialised type of moneylender on the security of land, whose role has subsequently been subsumed by that of the banker and conveyancer. The scrivener's specialisation normally led to a career other than banking, such as an estate agent, stockbroker, accountant or solicitor.<sup>56</sup>

Although all pioneering businesses are likely to be atypical to a degree, it does seem that Clayton's bank was truly exceptional. While some historians, most notably Richard Tawney, have seen scriveners as an important source of bankers, it should be noted that this profession failed to develop as a source of sustainable, multi-generational banks, leading other historians to claim that they were not so central in this respect.<sup>57</sup> Clayton was unlucky in that the potential heirs to his business predeceased him.<sup>58</sup> However the bank also faced other issues with Melton noting that 'mortgage finance swamped the scrivener's affairs with paperwork', particularly the business of writing conveyances in the 1670s. Another reason that the scrivener perhaps never really managed to fully shift into the banking business is the relative decline of the Scriveners' Company. This meant that people in general were not likely to join as apprentices due to the limited likelihood of a return on the investment in their own training. Clayton had no apprentices after the 1660s.<sup>59</sup> Given that a complete shift into the banking business appears to have happened over multiple generations of goldsmiths, the absence of an influx of new talent into the scriveners' businesses hindered the long-term role of this group in the development of the English banking industry. In contrast the goldsmiths received a steady stream of new recruits and the company itself could act as a type of regulator.<sup>60</sup> While the goldsmiths were then the more important profession in pioneering English banking, the importance of the legal profession should not be understated. They continued to maintain an interest in finance more generally, especially in the provinces, but also in London. An example of the latter was Robert Andrews, who aside from his normal activities as an attorney, financed house building, through his own resources and through trusts he administered on behalf of others. It is argued that he was not an isolated case.<sup>61</sup>

Aside from lending upon mortgage, which offered good security, but was also illiquid, and lending to the government, bankers had two other types of security in this period.<sup>62</sup> In their early stages bankers also acted like pawnbrokers, lending on the security of jewellery, plate or other valuable items that could be sold in the case of failure to repay the loan.<sup>63</sup> Gold and silver was a safe store of value, particularly given the fixed price set at the mint, which

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<sup>56</sup> Ibid., p. 222.

<sup>57</sup> Clapham, *Bank of England*, p. 7. For Tawney, see Thomas Wilson, *A discourse upon usury* (1572), ed. R.H. Tawney (London, 1925), pp. 98-100.

<sup>58</sup> See above, p. 32.

<sup>59</sup> Melton, *Sir Robert Clayton*, p. 76-7.

<sup>60</sup> Quinn, 'Goldsmith-banking: Mutual Acceptance and Interbanker Clearing', pp. 424-27.

<sup>61</sup> Victor Belcher, 'A London Attorney of the Eighteenth Century: Robert Andrews' *The London Journal* 12.1 (1986) pp. 41-7

<sup>62</sup> For the general importance of the mortgage as a security, see B.L. Anderson, 'Provincial Aspects of the Industrial Revolution of the eighteenth century', *Business History* 11.1 (1969), pp. 12-16.

<sup>63</sup> There are clear instances of this in the case of both Drummond's and Child's banks, see below, p. 157. Hoare's history references similar activity, although it was considered risky; see Hutching, *Messrs Hoare bankers*, p. 20.



meant that there was effectively a base minimum value. The other security was the penal bond, which imposed fines of double the loan made upon the borrower in case of non-payment, and gradually fell out of favour in Chancery. In practice they were personal securities that were 'vague'.<sup>64</sup> This seems to be borne out by surviving bank records, where instances of lending upon bonds can be found, but are comparatively rare. An example can be seen in the case of a loan between Mr Douglas in Covent Garden and the banker Andrew Drummond, for £2,000 guaranteeing the repayment of £1,000.<sup>65</sup> In all these forms of personal lending, a key advantage of bankers in this period was that their backgrounds, either as goldsmiths or scriveners, provided them with the knowledge of people needing to borrow money.

While the demand for banking services may then be seen to have been increasing, the actual reason for the shift into banking from a supply perspective must be linked to the opportunity for profit. That the Restoration period witnessed a growing desire to find new sources of higher returns is suggested by Davies, who argues that the shareholders of the large monied companies in the seventeenth century were City merchants who were acting as venture capitalists, in that they were looking for above average profits, rather than a 'safe' investment for their savings.<sup>66</sup> For banking more specifically, Quinn has suggested that Child's shift towards the higher margin business of lending to the government in the 1680s and 1690s can be understood in terms of profit maximisation: internal rates of return on tallies were estimated at 8.3% against 5.5% for a loan to private individuals.<sup>67</sup> Increasing exposure to such tallies meant the bankers were taking on additional risk, such as exposure to potential default, so achieving an optimal mix of assets was a question of achieving an appropriate balance of risk and reward. Any analysis of the performance of Restoration bankers is complicated by the usual problems surrounding the loss of records. One firm for which some indications are available is the business of the goldsmith-banker Fowle, who operated in Fleet Street in this period. In the five months to April 1674, he made profits from interest earned of £108 (or approximately £260 on an annualised basis). For the year to August 1679, this figure had risen to £1,296, in the year to August 1687 it reached £2,627, and £3,854 by the year to September 1690.<sup>68</sup> Despite the rise of the bank, he did not abandon his 'proper' goldsmith business, partly maybe to keep customers happy by providing the services of jeweller and banker in one place.<sup>69</sup> Mitchell suggests that the increased profitability indicates that the Stop on the Exchequer of 1672 played a substantial role in raising the significance of goldsmith-bankers, despite the immediate difficulties it may have caused.<sup>70</sup> The argument in favour of the Stop being a medium term positive does appear compelling and is further supported by the fact that it appears to have

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<sup>64</sup> Melton, 'Sir Francis and Robert Gosling', pp. 68-9.

<sup>65</sup> RBS, DR/398, 24 May 1745.

<sup>66</sup> K.G. Davies, 'Joint-Stock Investment in the Later Seventeenth Century', p. 300.

<sup>67</sup> Stephen Quinn, 'Tallies or Reserves? Sir Francis Child's Balance Between Capital Reserves and Extending Credit to the crown, 1685-1695', *Business and Economic History* 23.1 (1994), pp. 43-7

<sup>68</sup> D.M. Mitchell, "'Mr Fowle Pray Pay the Washwoman'": The Trade of a London Goldsmith-banker, 1660-1692', *Business and Economic History* 23 (1994) pp. 32-3.

<sup>69</sup> *Ibid.*, pp. 37-8.

<sup>70</sup> *Ibid.*, p. 28.

allowed a new generation of goldsmith-bankers, who were less dependent on government investments, to emerge.

It is also clear that from an early point these banks were interconnected, having developed a process for balancing out payments between themselves.<sup>71</sup> Quinn's examination of the ledgers of Backwell shows that the goldsmiths who were issuing notes were also bi-laterally clearing their own balances between each other (perhaps unsurprisingly) and also notes how the apprenticeship system allowed them to have some sort of faith in each other's character and ability, as they were generally acquainted with each other.<sup>72</sup> As well as enjoying this system of mutual support domestically, they also formed part of a wider international network of bankers and merchants that allowed for the growth of a relatively stable international financial system in this period. The nature of this system was characterised by 'the lack of a singular institution to co-ordinate information' and was a 'payment system' based around an 'active market in bills of foreign exchange'. This was in contrast to other centres, such as Amsterdam, where payments were routed through a national bank and meant that the Bank of England could take on a different character to other 'national' banks of the time.<sup>73</sup>

## II

By the last decade of the seventeenth century, a dynamic, integrated banking sector had emerged in London. However the environment in which it operated was subject to substantial changes in the 1690s. These changes, including the important step of the formation of the Bank of England, are referred to by Dickson as a Financial Revolution.<sup>74</sup> The Revolution has come to be seen as 'one of the age's most remarkable and enduring achievements'.<sup>75</sup> At its core, Dickson sought to explain the significant change in the interest rates the English government paid on its debt. Over the period 1693-1755 it succeeded in reducing the interest rates paid upon its debts from a 7% to 14% range to 3%, despite raising an unprecedented £75 million to fund the various wars that Britain became entangled in. This fall in interest rates was mirrored in the rates of interest on East India Company stocks and bonds. Overall, 'a series of relatively separate and imperfect money-markets were becoming unified as technique improved and financial stability increased', as can be seen in the convergence of long and short-term interest rates. As important as the absolute fall in interest rates was the closing of the premium that the English government was paying relative to the Dutch: by the 1730s, the English government could borrow at the same rate as the Dutch government.<sup>76</sup> More recent research on this credit premium has also highlighted the convergence of British government borrowing rates with those of leading merchants, who in reality enjoyed the best credit worthiness in the early modern

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<sup>71</sup> Quinn, 'Goldsmith-banking: Mutual Acceptance and Interbanker Clearing', pp. 414-24; Larry Neal and Stephen Quinn, 'Networks of information, markets, and institutions in the rise of London as a financial centre, 1660-1720', *Financial History Review* 8:1 (2001), pp. 7-8.

<sup>72</sup> Quinn, 'Goldsmith-banking: Mutual Acceptance and Interbanker Clearing', pp. 425-7.

<sup>73</sup> Neal and Quinn, 'Networks of information, markets, and institutions', pp. 7-8.

<sup>74</sup> Dickson, *Financial Revolution*, passim.

<sup>75</sup> Julian Hoppit, *A Land of Liberty? England 1689-1727*, (Oxford, 2002), p.127.

<sup>76</sup> Dickson, *Financial Revolution*, p. 470-3.

economy. Flandereau et al have shown that government borrowing lagged the developments in commercial credit:

Long before the British government reformed itself to take advantage of the possibilities of the capital market, a deep transformation of this capital market had already taken place. Commercial interest rates were very low quite early...

There was thus no sovereign ceiling on interest rates in the eighteenth century.<sup>77</sup> The Financial Revolution however narrowed this spread between English government borrowing rates and commercial credit by the second quarter of the eighteenth century, and the English government began to enjoy interest rates that suggested it was amongst the best credit risks in the market.

In the process of achieving this reduction in interest rates, there were major advances in financial market development. Over time four distinct types of government securities emerged that were regularly bought and sold in the London capital market in the eighteenth century: the long-term debt (government perpetual debt, as well as Bank of England and South Sea stock); short-dated securities (India bonds and Exchequer bills); the short-term paper used to finance the armed forces (especially Navy bills); and more equity-like, non-interest paying securities, including 'the Omnium'.<sup>78</sup> Each satisfied slightly different purposes and therefore was attractive to different investors. Although it took time for these groups of securities fully to mature, studies of personal investment habits for the end of the seventeenth century suggest that investors were quick to make use of the new opportunities that became available. For example Whyman has shown that the Verneys' investment habits changed with the Financial Revolution. She argued that this change indicated the revolution's broad impact upon English society.<sup>79</sup> However it does appear that of total domestic proprietors of stock, only 7% were held outside of London, although this figure will obviously not reflect the impact of holdings made via bankers for example.<sup>80</sup> As the eighteenth century progressed, the number of holders of government related stock increased, and the dominance of Londoners declined somewhat. In 1694, there were 1,509 subscribers to the Bank of England's capital, contributing on average £795 each. By 1726 Bank investors numbered 4,837.<sup>81</sup> Around the time of the consolidation of the national debt in 1749 by Henry Pelham, which created the 3% Consols, the total number of domestic holders of government securities has been estimated at 50,000 to 60,000 people.<sup>82</sup> By 1760, the number of holders of the national debt, which totalled

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<sup>77</sup> Flandereau et al., 'The bell jar: Commercial interest rates between two revolutions, 1688-1789' in Jeremy Atack and Larry Neal (eds.), *The Origins and Development of Financial Markets and Institutions from the Seventeenth Century to the Present* (Cambridge, 2010), pp. 195-8.

<sup>78</sup> Pressnell, *Country Banking*, p. 417, 428-9. The Omnium was a public loan in the course of subscription and included various sweeteners designed to help to float the main loan close to par.

<sup>79</sup> Susan Whyman, *Sociability and power in late-Stuart England: the cultural worlds of the Verneys, 1660-1720* (Oxford, 1999), pp. 74-80.

<sup>80</sup> Dickson, *Financial Revolution*, p. 294-7.

<sup>81</sup> Michie, *London Stock Exchange*, pp. 16-7.

<sup>82</sup> Dickson, *Financial Revolution*, pp. 284-6; Roseveare, *Financial Revolution*, p. 62. One should note that this number includes holders of stock in the three monied Companies (about 10,000 in total). The total government related debt at that point amounted to about £78 million, of which 93% was permanently funded, see Michie, *London Stock Exchange*, p. 19.

£101.7 million, has been estimated at 60,400, of whom the majority were Londoners. Londoners were also most active in the market, with about 69% of all transfers of government and Bank of England stock in 1755 carried out on their behalf, with a further 10% being carried out for residents in the vicinity of the capital.<sup>83</sup> Despite the issuance of securities by turnpikes, livery companies and canals in the later eighteenth century, the securities market in London continued to be dominated by government-related debt until the mid-nineteenth century. The holders of the debt also continued to be concentrated in the London and the south east, with 87% located in London and the Home Counties between 1780 and 1793.<sup>84</sup>

The reasons for this reduction in interest rates and the emergence of a deep, liquid securities market are complex, resting upon longer term influences, technical reforms and financial innovations in the 1690s, as well as political considerations. The outlines of the longer term development narrative can be seen in a document from the eighteenth century in the Barings archive. This documents one of the partner's (probably Sir Francis, around 1800) thoughts on the history of England's financial system. A number of key events in the financial history of Britain up to that point are recorded and suggest a perspective of long-term continuity within English financial history, which also had a European context. Firstly in the twelfth century the Venetians established the first payments by bank bills and bills of exchange. In Britain, the most important event was the foundation of the Bank of England in 1694. Comments on the preceding period are limited, but two important themes are highlighted: firstly, 'The mint in ye Towers formerly a Bank but the cash being seized by Chas 1<sup>st</sup> in 1640 it was ruined'. Secondly, from 1645 onwards, the role of the goldsmiths is highlighted, but it is argued that their credit was eroded in 1667 by a run on them caused by the Dutch attack upon the Medway and then in 1672 by Charles II's Stop on the Exchequer. In the eighteenth century it highlights only the establishment of three funds: the Aggregate Fund, the South Sea Fund and the Sinking Fund respectively.<sup>85</sup> In this narrative, the events of the 1690s formed part of a longer-term evolution, a view that may appear like a 'Whiggish' interpretation of history. Yet much of the recent historical research has tended to re-emphasise the idea that the Financial Revolution was not a sharp discontinuity, but instead focuses on longer term trends in English financial development.

From a purely English perspective, the importance of continuity and evolution has been highlighted in a number of instances. On the securities market, Anne Murphy has argued that the changes in state finance drew upon a wealth of knowledge and technical expertise that had already been established in London in the period 1685-95. In particular this created a network of jobbers and brokers that could trade securities and also allowed investors to develop a knowledge base of risk management.<sup>86</sup> By 1694, there were already

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<sup>83</sup> Michie, *London Stock Exchange*, p. 20.

<sup>84</sup> *Ibid.*, p. 32-3. Canal company shares were traded more extensively in the towns in which they operated, although some purchases did take place in London.

<sup>85</sup> Baring, Northbrook Papers, NP1A 6.8.

<sup>86</sup> Murphy, *The Origins of English Financial Markets*, pp. 220-24.

25 joint stock companies with shares traded in London.<sup>87</sup> In this sense the Bank was not a novelty, although it did operate on a larger scale than most other contemporary establishments. Ashworth has also argued that many of the key innovations of the Financial Revolution, especially those relating to revenue generation, had already been put in place during the Dutch Wars of the 1660s and 1670s, based largely on Dutch experience.<sup>88</sup> Such analyses emphasise that the Financial Revolution was not an historical rupture based upon the wholesale importation of Dutch financial techniques. Instead the financial system was already steadily evolving through the regular interaction amongst merchant and political communities, both within England and internationally.

Indeed, an international perspective does serve to temper the 'revolutionary' nature of the financial developments in England, certainly in terms of the financial techniques that were introduced. Italian historians especially highlight that most of the techniques that came to the fore in England after 1688 had been pioneered much earlier in Italy, particularly in Genoa and Venice. To them, the term financial revolution has been 'abused', finding that in many cases, not just within the context of England, there was a lack of a clean break with the past. In many cases change was a series of rolling events that in many ways was spreading technical knowledge throughout Europe.<sup>89</sup> In the sphere of securities and public banking, the predecessors of most financial changes in both the Netherlands and England were to be found in Genoa, Venice and Florence.<sup>90</sup> Other historians, including Michie and Spufford, argue in favour of the gradual diffusion of financial techniques throughout Europe from Italy through Bruges, Antwerp and Amsterdam, thus eventually reaching London.<sup>91</sup> Along this path, incremental improvements in financial techniques were made to suit the requirements of the local environments. One of the major changes occurred in the sixteenth century, when finance was separated from physical trade, as seen especially in the decline of the fairs and the real emergence of the bill of exchange as a financial instrument. This was accompanied by a shift in the trading centre of Europe northwards towards the Netherlands.<sup>92</sup> Thus it is true that within a European context, the English Financial Revolution does indeed appear far from revolutionary, although some of its domestic impacts undoubtedly carried longer-term significance. It is perhaps more useful to think of the English financial revolution as one of a series of European financial revolutions.<sup>93</sup> There was a process of long-term evolution across Europe, as financial services adapted to meet the needs of their users, which meant that the exact end-result was locally distinct.

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<sup>87</sup> Perry Gauci, *Emporium of the World, The Merchants of London, 1660-1800* (London, 2007), pp. 145-48.

<sup>88</sup> Ashworth, *Customs and Excise*, chapter 1, especially, pp. 18-20.

<sup>89</sup> Michelle Fratianni and Franco Spinetti, 'Italian city-states and financial evolution', *European Review of Economic History* 10 (2006), pp. 257-8.

<sup>90</sup> *Ibid.*, pp. 262-72.

<sup>91</sup> See Michie, *Global Securities Market*, chapters 1 and 2; Peter Spufford, 'From Antwerp and Amsterdam to London: The Decline of Financial Centres in Europe', *De Economist* 154.2 (2006), pp. 143-175.

<sup>92</sup> Charles P. Kindleberger, 'Economic and Financial Crises and Transformation in Sixteenth-Century Europe', in *idem, Essays in History, financial, Economic, Personal* (Ann Arbor, 1999), especially pp. 78-81.

<sup>93</sup> *Ibid.*, p. 72.

Taking a longer term perspective need not automatically alter the ultimate verdict on the significance of the changes that took place between 1685 and 1697. Roseveare for example takes a longer term approach and argues that the changes in their totality, with a shift from a royal debt to a national debt, despite underlying longer-term influences, still amounted to a Financial Revolution.<sup>94</sup> More specifically he argued of the period 1685-1714:

The adoption of long-term borrowing, the foundation of a great bank, the recoinage of the metallic currency and the circulation of a paper one – any one of these would make their decade [the 1690s] significant in financial history: together they unquestionably add up to a revolution.<sup>95</sup>

This highlights that the Financial Revolution can be judged in two ways: on the one hand, there is an implementation angle, which was built on longer-term influences. In this sense the Financial Revolution was not a complete break with the past, but was instead built on both domestic and foreign knowledge and expertise. However there is also an impact side, and in this sense it does appear that the 1690s were a revolutionary period. Furthermore, even if one accepts the longer term underlying influences, the timing of the change still requires an explanation.

Part of this explanation can be found in the roughly contemporaneous changes in the constitutional and institutional set-up. This reasoning was developed by North and Weingast, who elaborated upon Dickson's initial argument in favour of a transformation of the government's credit. Political changes were instituted that constituted 'an explicit attempt to make credible the government's ability to honor its commitment'.<sup>96</sup> North and Weingast's theory has proved contentious.<sup>97</sup> However it is difficult to envisage how the equivalent financial changes would have occurred under the Stuart monarchy. This is particularly true because the significance of the financial revolution derived in part from a change in foreign policy which involved England more extensively in the European wars, with the accompanying substantial financial burden. Under Charles II, struggles between king and parliament 'had reduced English foreign policy to virtual impotence'. The Glorious Revolution marked the triumph of the trading and colonial interest and the institution of a foreign policy to match this, financed by increased taxation of the gentry. 1688 saw the end of the old-style commercial monopolies and the creation through the Bank of England of a method of government finance that identified the moneyed classes with the revolution settlement, by making lending to the government profitable.<sup>98</sup>

However while the constitutional and political environment was important, the introduction of financial innovations combined with technical and administrative improvements was vital. Dickson himself placed significant emphasis on this area. As an example of this type of change, one could look to the improved transfer mechanisms for securities introduced by the monied companies, which saw the use of separate indexes for

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<sup>94</sup> Roseveare, *Financial Revolution*, pp. 3-5, 75.

<sup>95</sup> *Ibid.*, p. 47

<sup>96</sup> North and Weingast, 'Constitutions and Commitment', pp. 804-5.

<sup>97</sup> For a recent assessment of North and Weingast's theory, see Gary W. Cox, 'Was the Glorious Revolution a Constitutional Watershed?', *The Journal of Economic History* 72.3 (2012) 567-600.

<sup>98</sup> Hill, *Century of Revolution*, pp. 224-32; Dickson, *Financial Revolution*, pp. 7-10.

recording the owners of stock, or the widespread adoption of the use of power of attorneys, which meant that transfers were made by brokers in larger volumes. This improved the transferability of government securities and thus the liquidity of the wider market.<sup>99</sup> However the two most important changes were the creation of the first permanent funded debt in 1693, and then the formation of the Bank of England in 1694. The latter is particularly important in the context of this study. Seventeenth century thinking on the operation of the economy and money had led to suggestions for banking schemes to expand the supply of credit, assist economic growth and strengthen the state, resulting in proposals for a national bank as early as the 1650.<sup>100</sup> Many schemes were advanced, especially for Land Banks, while banks based on 'Lumbards' (merchants' warehoused, non-perishable goods) were also suggested, largely because of the perception of a gap between England and its Continental rivals, 'lacking as it did cheap credit, universally negotiable paper and a national banking system'.<sup>101</sup> Some of these schemes to stabilise the London banking system after the collapse of major goldsmith-bankers in the second half of the 1670s did come to fruition. These included the creation of the City of London Bank and the National Bank of Credit, for loans to merchants, in 1682 and 1683 respectively, both of which failed as they gained insufficient traction.<sup>102</sup> This was followed by an attempt to engraft a bank onto the charter of the defunct Royal Fisheries Company, which would have had a capital of £200-£300,000.<sup>103</sup> These schemes were fatally undermined by the politics of the mid-1680s, which saw the Fisheries Company lose its Royal Charter and the City Corporation attacked by Charles II and its leadership replaced by Tory supporters. However the changed circumstances of the 1690s ultimately led to the formation of the Bank of England, as the significant need of the government for extra money was matched to the lenders' need for greater security.<sup>104</sup>

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<sup>99</sup> Dickson, *Financial Revolution*, pp. 457-64. This can partly be seen in the growing number of investors in the debt, see above pp. 41-2.

<sup>100</sup> Carl Wennerlind, 'Credit-Money as the Philosopher's Stone: Alchemy and the Coinage Problem in seventeenth-Century England', *History of Political Economy* 35.4 (2003), pp. 234-7, 246-55. He focuses particularly on the role of the Hartlib circle.

<sup>101</sup> Roseveare, *Financial Revolution*, pp. 26-7; for some of the ideas for new banks, see Joyce Appleby, *Economic Thought and Ideology*, pp. 213-5. It is notable that Appleby argues that the literature on trade, money and market behaviour that had been common from the 1620s, 'came to a halt at the end of the century when balance-of-trade theory was reasserted in its crudest form'. Similarly, Edmund Whittaker's *A History of Economic Ideas* (London, 1950), pp. 652-3, jumps from the South Sea Bubble to the Suspension crisis, indicative of a lack of new thinking on the topic over the eighteenth century.

<sup>102</sup> Clapham, *Bank of England*; Roseveare, *Financial Revolution*, p. 28. Neither of these attempts is mentioned in Dickson's work, although he did generally note previous attempts at establishing a bank under the Stuarts, the later attempts to create a land bank and a 'General National office of Credit in 1697', pp. 5-6 and 54-6.

<sup>103</sup> J.K. Horsefield, 'The Origins of Blackwell's Model of a Bank' *The William and Mary Quarterly* 23.1 (1966), pp. 126-8. He notes that this scheme was effectively exported to Boston and heavily influenced early banking schemes there.

<sup>104</sup> H.V. Bowen, 'The Bank of England during the long eighteenth century, 1694-1820' in David Kynaston and Richard Roberts (eds.), *The Bank of England, Money, Power and Influence, 1694-1994* (Oxford, 1995) pp. 4-6; Clapham, *Bank of England*, pp. 17-18. The security that was required, in the form of interest promised on the ship's tonnage and liquor duties.

The Bank itself incorporated elements of some foreign banks, but its combination of the roles of note issuer and lender to the government was genuinely unique.<sup>105</sup> Most 'national' banks at the time operated as banks of exchange, including the Dutch *Wisselbank*, which stood at the heart of the much-admired Dutch financial system, and the early Stockholms Banco.<sup>106</sup> In contrast, the principal area of the Bank of England's business was loaning money to the government and the circulation of notes. It was this latter line of business that distinguished the Bank from other state banks of the period: 'Issue was the last of the classical functions to evolve spontaneously in England, and it was England's main contribution to the evolution of European banking.'<sup>107</sup> The Bank then was modelled along a fractional reserve line much more like the early banks of London in this period than the foreign corporate institutions. It was an innovation that was greeted with a degree of scepticism in some corners, but was soon understood to be essential to the existence of the Bank. This is not the place to enter an in-depth analysis of the Bank. It is sufficient to note that despite some early difficulties, by the 1760s its position was well established. This was formally acknowledged by the financially well informed Prime Minister North, who famously declared that the Bank was "from long habit and the usage of many years, a part of the constitution". Through attentive management of its own credit, it had certainly improved the credit of the English state and thus become crucial to the public exchequer.<sup>108</sup>

While the improvements that together formed the Financial Revolution were then significant, it is noticeable that they have been discussed almost exclusively from the perspective of the state and the capital markets. It becomes apparent on closer consideration that Dickson's work suffers from one major short-coming: it reflected developments only in one part of the English financial system. This reflected his significant political interest: he wanted to explain the 'practical and successful character of English government'.<sup>109</sup> The formation of the Bank of England and the creation of a funded debt were clearly significant from the perspective of the securities market. There were however limitations to the reach of both into the wider economy. Thus Dickson's conclusions of a wholesale financial revolution in England, while valid in the context of government finance and the securities market, may well not hold for the financial system as a whole. The question of the Bank's impact on the credit economy is of some scope, and a tentative answer will become more apparent over the course of later chapters. More immediately, however, it is possible to make some comments on the impact of the formation of the Bank on the existing private banks of London.

The creation of the Bank of England was originally understood to have been a significant competitive threat to the goldsmith-bankers of London. Macaulay believed this to be the

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<sup>105</sup> Fratianni and Spinetti, 'Italian city-states and financial evolution', p. 272, argue that the Banco Giro in Venice was similar to the Bank of England, but that it did not cover all the functions of the Bank.

<sup>106</sup> Clapham, *Bank of England*, pp. 2-3; Grossman, *Unsettled Account*, pp. 40-42, 198-99.

<sup>107</sup> Clapham, *Bank of England*, p. 5.

<sup>108</sup> Bowen, 'The Bank of England, 1694-1820', p. 3-6.

<sup>109</sup> Dickson, *Financial Revolution*, p. 14. Dickson's wider political interest can be seen in his other major publication, *Finance and Government under Maria Theresia, 1740-1780* (Oxford, 1987).



case, famously writing in his history of England that its formation occasioned howls of rage from the goldsmiths.<sup>110</sup> The evidence in support of such a view is however limited. The Bank did carry out some private business in its early stages, including discounting bills of exchange and loaning money to individuals and larger corporate bodies, especially the East India Company. It made loans of 'all sizes, to all sorts of people and on a considerable variety of securities', upon which in March 1695 it had received interest of just over £15,800. However this secondary business declined and by 1753, the receipt of such interest on loans had dropped to £3,620, the bulk of which was from loans to corporate bodies, principally the East India Company.<sup>111</sup> The discount business of the Bank prior to 1760 was also limited, with an implied average bill portfolio of only £63,500 even in 1744.<sup>112</sup> The limited involvement of the Bank in 'private' business is perhaps not surprising given the resources it needed to devote to financing the state and supporting its note issue. Equally the Bank at first was not obviously of any significant advantage to the private bankers. There is some indication of distrust in the drawing ledgers of the Bank. Although some recognisable goldsmith-bankers did have accounts with the Bank, they did not use them regularly and many were closed by May 1695. Exceptions included Sir John Sweetapple and Freame & Gould. The latter had a fairly large account until 1709, when it was closed. It re-opened in 1716 and was very large after 1738. Hankey and Richard Hoare also had reasonably active accounts.<sup>113</sup> In terms of deposits, very few private bankers made use of the Bank as a store of cash: as late as 1741, the only notable English banking firm with a cash account at the Bank was Freame and Barclay, who had £24,753 on deposit.<sup>114</sup> Ultimately, in the short to medium term, the initial impact of the formation of the Bank on private bankers appears to have been benign. Where the impact of the Bank was more clearly visible was in the displacement of the private bank notes in London. For a relatively brief period, London banks used both Bank of England and their own bank notes extensively, however private note issues soon declined. This does not appear to have been a cause of concern, indicating perhaps that issuance was not necessarily private banks' most important function. The numbers of goldsmith-bankers continued to increase between 1687 and 1700, hardly indicative of a trade under threat, and evidence of deliberate 'attacks' by goldsmiths upon the Bank are equally hard to find in the account books of that company.<sup>115</sup> This is in striking contrast to the situation in Scotland, where the rivalries and struggles between the Bank of Scotland and the Royal Bank are well documented.

Another approach to analysing the impact of the formation of the Bank on London's private bankers, used by Steven Quinn, is whether the Bank of England was drawing loanable funds

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<sup>110</sup> John Biddulph Martin, *The Grasshopper in Lombard Street* (New York, 1968), p. 129; Clapham, *Bank of England*, p. 29, who notes also that the prospect of this was welcomed in some quarters, quoting a pamphleteer of 1695.

<sup>111</sup> Clapham, *Bank of England*, pp. 115-121; Bowen, 'The Bank of England 1694-1820' pp. 14-6.

<sup>112</sup> Sir John Clapham, 'The private business of the bank of England, 1744-1800', *ECHR*, 11 (1941), pp. 77-9.

<sup>113</sup> Clapham, *Bank of England*, pp. 29-31.

<sup>114</sup> Dickson, *Financial Revolution*, p. 390. The Royal Bank of Scotland had an account with the Bank, with £3,920 on deposit.

<sup>115</sup> Clapham, *Bank of England*, pp. 29-33.

away from private bankers, thus crowding them out.<sup>116</sup> One might expect this to have had a negative impact upon the development of private bankers in general, especially their ability to grow, as they obviously depended to a degree on such loans for profits (although interest rates might be raised to compensate for this and maintain overall profitability). His conclusion is important, for he suggests that 'bankers and their customers began to use the improved financial instruments of the government to facilitate private lending', an indication that the financial changes that accompanied the Glorious Revolution, including the Bank, may actually have helped to improve the position of the goldsmith-banker by stimulating demand for loanable funds.<sup>117</sup>

### III

In conclusion, although the foundation of the Bank of England was the most prominent financial event of the seventeenth century, the evolution of the practice of banking was in reality dominated by private partnerships. While not strictly confined to goldsmith-banking firms, with some scriveners contributing positively, it seems implausible to deny that in both the City and the West End, goldsmiths were the single most important trade in developing banking practices. The Stop on the Exchequer damaged the original leading firms irreparably, leaving a second rank to take their place. These were fluid in composition, leaving only five lasting institutions of the thirty or so establishments between 1677 and 1700.<sup>118</sup> Nonetheless, London's banking system was firmly established over this period. These developments were not significantly affected by the Financial Revolution. The early role of the Bank of England was that of a government funding vehicle and its early interaction with private banks very limited. The Revolution's impacts were more likely indirect, via the benefits of liquid investments that could be purchased as assets by the banks. In the long-term, the shape of the English banking system in the eighteenth century was clearly influenced by the creation of the Bank of England in 1694. However the impact was slow and the dominant theme is one of continuity in the development of banking. The consequence was that Britain's banking system was left to develop more or less organically with minimal government interference throughout the eighteenth century.

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<sup>116</sup> Stephen Quinn, 'The Glorious Revolution's Effect on English Private Finance: A Microhistory, 1680-1705', *Journal of Economic History* 61:3 (2001), p. 594.

<sup>117</sup> *Ibid.*, p. 613.

<sup>118</sup> Melton, 'Robert and Sir Francis Gosling', pp. 66-7.

## Chapter 2: London's growth as a financial centre in the eighteenth century

Burke's famous comment on provincial banks and subsequent historical research has made it clear that for the first half of the century, banks were essentially only to be found in London.<sup>1</sup> The previous chapter has indicated how the development of banking did not occur in isolation in London, but was one of a number of advances in finance that were taking place in the capital. Before proceeding to an analysis of how banking developed during the eighteenth century, it is worth placing it in its proper context of London's economy and the broader activities of the City in this period. London's position as a central location for financial transactions, and as the nation's payment centre, meant that developments there had the potential to affect banks all over the country. England's largest city had a very diverse economy, encompassing substantial trade, manufacturing and services sectors, all requiring the provision of financial services, which the City was increasingly better placed to provide. The arrival of banks in the City of London, and of merchants increasingly assuming functions associated with banking and finance, was an essential and underappreciated reason for London assuming its position as a leading European centre for finance. However this relationship was symbiotic – the growth of other parts of the financial cluster encouraged the emergence of bankers.<sup>2</sup> A failure to incorporate an analysis of the growth of English banking within the context of the acknowledged emergence of London as a financial centre would be to provide an incomplete analysis of both the causes and implications of that same growth.

The literature on financial centres places London's initial emergence as a leading centre firmly in the eighteenth century, but few comprehensive attempts have been made at understanding the process behind or the reasons for this. As an example, the first volume of *The Development of London as a Financial Centre*, despite arguing that the City of London remained predominantly a commercial centre in this period, commences its analysis in 1700 and 11 of the 16 articles cover separate aspects of London's growing financial sophistication in the eighteenth century.<sup>3</sup> Similarly Peter Spufford has argued that the emergence of London as an international financial centre was a feature of the 1760s and 1770s, although the seeds that drove it had been laid earlier.<sup>4</sup> Most long-term studies of the City's growth provide a similar starting point, although the early years consistently receive the least attention. For example Cassis maintains that London's financial architecture was 'essentially in place by the second third of the eighteenth century', but begins his core analysis in 1780.<sup>5</sup> David Kynaston equally acknowledges that London's position as the leading financial centre originated in the eighteenth century, with a chapter

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<sup>1</sup> For banking outside of London, see chapter 7, especially pp. 170-2.

<sup>2</sup> Mollan and Michie, 'The City of London as an international Commercial and Financial Center', pp. 538-87.

<sup>3</sup> R.C. Michie (ed.), *The Development of London as a Financial Centre, volume I* (London, 2000), p. v-vi, xix.

<sup>4</sup> Spufford, 'From Antwerp and Amsterdam to London', pp. 167-9.

<sup>5</sup> Youssef Cassis, *Capitals of Capital, A History of International Financial Centres, 1780-2005* (Cambridge, 2006), p. 19.

touching on the emergence of what he regarded as the centre's four key pillars: the merchants, the insurance market, the bankers (especially the Bank of England) and the Stock Exchange.<sup>6</sup> However in both instances the majority of the work then focuses on nineteenth century developments. Such long-term studies have been complemented by more targeted research on the eighteenth century as well, most notably by Larry Neal.<sup>7</sup> In an article building on Neal's initial work, Carlos and Neal argue that 'London had no problem maintaining its pre-eminence as a financial centre' after 1815 and argue that this position was established during the eighteenth century.<sup>8</sup> It might be suggested that there was a transition from a centre that was largely focused on its domestic role to one that became increasingly internationally focused.<sup>9</sup>

Most of the historical literature addresses the position of London relative to other financial centres. Amsterdam's leading position for the majority the eighteenth century is widely acknowledged. Michie claims that the City remained less important 'than Amsterdam's financial markets, institutions and firms' and as an international payments centre until the French Revolutionary wars.<sup>10</sup> However over the last two decades of the century, a shift in this balance clearly occurred and London assumed the position of 'first-amongst-equals' of European financial centres. Cities such as Amsterdam, Frankfurt, Brussels, Geneva and Paris all remained important in an era when markets remained regional or local given the limitations that technology placed on communications.<sup>11</sup> Explanations for this shift are however often vague. Obviously the reasons behind a centre gaining or losing influence are inherently complex, combining economic, political and social factors.<sup>12</sup> Indeed, it has been suggested that the ultimate failure or rise of a financial centre is determined by politics rather than economics.<sup>13</sup> The most common narrative usually attributes London's rise to a combination of a gradual weakening of Amsterdam's significance from 1760 under political and economic pressures and London's growing importance, driven at least in part by its dominance of the growing Atlantic economy.<sup>14</sup>

The most recent discussion of the changing balance between the two centres can be found in Neal and Carlos' recent article, which updates some of the points made in Neal's *Financial Capitalism*. They focus on the symbiotic relationship between Europe's two most important financial centres for most of the century. Between 1690 and 1780, London developed the continent's leading capital market, while Amsterdam developed the knowledge to provide internationally focused merchant banking services for the rest of the

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<sup>6</sup> David Kynaston, *The City of London, vol. 1: A World of its Own, 1815-1890* (London, 1995), chapter 2, especially pp. 12-17.

<sup>7</sup> Neal, *The Rise of Financial Capitalism*, is the key work, in particular chapters 2, 3 and 10.

<sup>8</sup> Carlos and Neal, 'Amsterdam and London as financial centres', p. 24.

<sup>9</sup> R.C. Michie, 'London and the Process of Economic Growth since 1750', *London Journal* 22.1 (1997) 63-90; R.O Roberts, *The City, A guide to London's Global Financial Centre* (London, 2004), pp. 23-31.

<sup>10</sup> Michie, *London as a Financial Centre*, p. Xxxv.

<sup>11</sup> *Ibid.*, p. xvii; Cassis, *Capitals of Capital*, pp. 19-22, 31. This international significance was achieved despite London's dominance of domestic markets declining somewhat, see Michie, *London as a Financial Centre*, p. xiii-xiv, xvi.

<sup>12</sup> Cassis, *Capitals of Capital*, p. 4.

<sup>13</sup> Spufford, 'From Antwerp and Amsterdam to London', pp. 171-2.

<sup>14</sup> *Ibid.*, pp. 167-9.

continent. Amsterdam's bankers' speciality was in developing high-returning, reasonably risk-free investment portfolios.<sup>15</sup> The international importance of Amsterdam can be seen through the fact that by 1772 it traded 57 Dutch and 39 foreign securities. However although foreign issues continued to do well in Amsterdam post-1772, financial crises in 1763, 1772-3 and civil war in the 1780s began the process by which Amsterdam's significance would be eroded.<sup>16</sup> Dutch involvement in the listing of foreign securities was not entirely voluntary: it also reflected constraints in the Dutch economy, where merchants' surpluses found insufficient domestic outlets. Amsterdam's domestic market was supply constrained, as the total debt of Holland remained effectively unchanged between 1713 and 1794, partly because the country had reached the limit of what their tax system could service.<sup>17</sup> In London by comparison, domestic demand for capital was still growing, as seen most clearly in the debt issued by the government over the course of the century. Secondly Amsterdam's international business arose partly from that city's declining importance as a commercial and industrial centre, because it encouraged merchants to specialise more in financial services. This in particular encouraged the growth of the Handelshuizen in the Atlantic trade, which started to specialise in floating foreign loans.<sup>18</sup>

Neal and Carlos argue that after 1780 this symbiotic relationship broke down, as difficulties within the Dutch economy became ever more acute.<sup>19</sup> The persistent provincialism of the Netherlands impeded trade and added transaction costs to business, in an era where other European states were breaking down internal barriers.<sup>20</sup> Furthermore, the difficulties in the Dutch economy were not confined to the non-financial sector. De Vries and Van der Woude believe that Dutch finance was over-reliant on the government bond market and did not develop a banking institution that could restore confidence and liquidity to the system. There was no equivalent central bank to the Bank of England in the Netherlands until 1814.<sup>21</sup> Alongside this shortcoming, they also argue that the lower branches of finance were not sufficiently developed. As in England, much lending remained localised in a 'tangle of debt and credit'. Notaries were involved as financial intermediaries, although their precise role is unclear. In short these authors argue that 'financial intermediation left much to be desired'.<sup>22</sup> Noticeably there was no equivalent to English deposit banking in the Dutch system. These difficulties did not emerge out of the blue: signs of weakness can be identified before 1780, particularly amongst the prominent Dutch merchant bankers.

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<sup>15</sup> Neal and Carlos, 'London and Amsterdam as financial centres', pp. 30-7.

<sup>16</sup> Michie, *Global Securities Market*, p 48; see also Jan de Vries and Ad van der Woude, *The First Modern Economy: Success, Failure, and the Perseverance of the Dutch Economy, 1500-1815*. (Cambridge, 1997); Marjolein 't Hart, Joost Joncker and Jan Luiten van Zanden, *A Financial History of the Netherlands* (Cambridge, 1997).

<sup>17</sup> Michie, *Global Securities Market*, p. 46. Government borrowing rose from 343 to 350 million guilders.

<sup>18</sup> Joost Joncker, *Merchants, Bankers, Middlemen, The Amsterdam money market during the first half of the nineteenth century* (Amsterdam, 1996), pp. 188, 191-4. These included W&J Willinsh and J. Hodshon & Zn.

<sup>19</sup> Neal and Carlos, 'London and Amsterdam as financial centres', pp. 37-41.

<sup>20</sup> De Vries and van der Woude, *The First Modern Economy*, p. 696.

<sup>21</sup> *Ibid.*, pp. 158, 697.

<sup>22</sup> *Ibid.*, p. 139.

Systematic failures occurred in 1763, while 1772/3 brought the failure of Clifford & Sons, the fallout from which was severe enough to encourage a co-ordinated, albeit temporary, response to restore confidence. Others voluntarily left Amsterdam for London at an early date, such as Gerard van Neck and Abraham Ricardo.<sup>23</sup> In short it can be argued that the Dutch financial system itself had structural weaknesses, which combined with the difficulties of the rest of the economy, offered an opportunity from which London was eventually able to benefit.

The purpose of this chapter is not to challenge the importance of Amsterdam as a financial centre during this period, for in certain respects it is self-evident. In certain areas, such as merchant banking, London arguably only matched Amsterdam by the end of the century, at which point London based houses did start to feature more prominently.<sup>24</sup> However in its entirety, London was equally obviously developing into a broader, deeper financial cluster and the question of how and why this happened in the eighteenth century still remains inadequately explored. Youssef Cassis suggests a true history of a financial centre needs to encompass 'the history of all financial activities without being that of any of its constituents in particular... [in] a way that helps us group both its global nature and its intimate association with its environment.'<sup>25</sup> However such a comprehensive account of London's financial centre does not really exist. The remainder of this chapter therefore seeks to improve understanding as to how London established its own infrastructure that allowed it to exploit Dutch problems between 1760 and 1796. It will focus in particular on core areas of development and specialisation: international finance, government finance, and banking.

## I – London's economy

Any explanation of London's significance as a financial centre within England and internationally has to be linked partly to the fact that it was by some considerable distance the largest and wealthiest city in the country. A strong underlying economy is essential for the successful emergence of a financial centre, although eventually the centre may develop an independent momentum of its own. This point is often neglected in the financial literature on London in this period, partly because London's eighteenth century economy has been largely by-passed by economic historians, who have instead tended to focus on the late seventeenth century or on the nineteenth century. As Schwarz observed over fifteen years ago, this was not just a feature of London's economy as a whole, but also of various economic interest groups, such as the bourgeoisie and merchants.<sup>26</sup> Some general relevant points can however be made.

At the beginning of the eighteenth century, London was the most important part of the English economy. For most of the seventeenth century, it had been developments in the capital that had served to drive economic growth in the whole of the country. This position has been accounted for in two ways. Firstly, London's population was growing faster than

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<sup>23</sup> Ibid., pp. 154-7.

<sup>24</sup> Cassis, *Capitals of Capital*, pp. 20-1. The first Schrodgers firm was established in 1800, while the Rothschilds became active in London between 1808 and 1811.

<sup>25</sup> Ibid., p. 6.

<sup>26</sup> Leonard Schwarz, 'London, 1700-1850', *London Journal* 20.2 (1995), p. 48.

that in the provinces, which drove investment and the division of labour. This also had a significant impact in encouraging economic development in the Home Counties.<sup>27</sup> The second point, more interesting in the context of this study, was that the capital had benefited from a shifting trading pattern that had become dominated by imported goods, where the merchant became the dynamic element in trade and which was centred on London, partly for geographic reasons.<sup>28</sup> During the seventeenth century, London had already assumed a crucial role in the British financial economy, as has already been shown for example in the case of the English land market. In this sense it is not surprising that Clayton was able to develop his business into a 'brokerage house specialising in mortgage loans', able to procure loans from a wide variety of counties.<sup>29</sup> London benefitted because it had a wider potential market for loans than the provinces and because all transfers of land ownership needed to be registered in London courts: this made it almost inevitable that the capital would come to sit at the heart of the English banking industry.<sup>30</sup>

Although the impact of some of these driving forces diminished in the eighteenth century, and London's economy became relatively less significant, it remained the largest single centre of consumption and an important industrial centre. London remained at the heart of the English economy, being its chief port and manufacturing centre.<sup>31</sup> The population continued to grow rising from an estimated 575,000 in 1700, to 600,000 by 1750 and 900,000 in 1801.<sup>32</sup> This consistently represented about 10% of the total population of England and Wales.<sup>33</sup> London's dominance of the urban hierarchy is obvious: in 1700 its population was much bigger than that of the next largest town (Norwich with 30,000), and indeed its population was comfortably larger than all the towns with a population in excess of 2,500 put together.<sup>34</sup> Similarly in 1801, the next largest English town was Liverpool, which had a population of 82,000, while Manchester had 75,000 people and Birmingham 71,000.<sup>35</sup> Thus although other towns were closing the gap between them and London, it remained considerable. London's economy behaved differently to that of provincial cities, and the eighteenth century saw a divergence in the secular growth patterns of London and

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<sup>27</sup> F. J. Fisher, 'London as an "Engine of Economic Growth"', in F.J. Fisher, *London and the English Economy 1500-1700* (London, 1990), pp. 187-8. L.D. Schwarz, *London in the age of industrialisation: Entrepreneurs, labour force and living conditions, 1700-1850* (Cambridge, 1992), p. 101-2, argues that London's influence within the English economy peaked in the middle seventeenth century. See also Wrigley, 'A Simple Model of London's Importance in Changing English Society and Economy, 1650-1750', *Past and Present* 37 (1967), pp. 44-70.

<sup>28</sup> Fisher, 'London as an "Engine of Economic Growth"', pp. 189-95.

<sup>29</sup> Melton, 'Robert and Sir Francis Gosling', p. 69.

<sup>30</sup> Melton, *Sir Robert Clayton*, pp. 20-3.

<sup>31</sup> T.C. Barker, 'Business as Usual? London and the Industrial Revolution', *History Today* 39.2 (1989), pp. 47-9; Michie, 'London and the Process of Economic Growth since 1750', pp. 64-7.

<sup>32</sup> Leonard Schwarz, 'London 1700-1870' in Peter Clark (ed.), *Cambridge Urban History*, vol. 2, 1540-1840 (Cambridge, 2000), p. 650. The population in 1750 may have been as high as 675,000.

<sup>33</sup> Based on the population figures for England and Wales from P. Deane and W.A. Cole, *British Economic Growth 1688-1959* (2<sup>nd</sup> ed, Cambridge, 1978), p. 104.

<sup>34</sup> Barker, 'Business as Usual? London and the Industrial Revolution', p. 47. These 67 towns totalled 395,000 people.

<sup>35</sup> B.R. Mitchell, *British Historical Statistics* (Cambridge, 1988), pp. 26-7. Edinburgh was slightly larger than Liverpool with a population of 83,000, while Glasgow had 77,000.

the provinces, with London witnessing a prolonged depression between 1720 and 1760.<sup>36</sup> Equally bankruptcy data for the eighteenth century suggests that the links in the cyclical economic trends between London and the provinces were weak.<sup>37</sup> Thus London's emergence as the world's leading financial centre actually corresponded with a period of relative domestic weakness.

Despite London's economic troubles during the mid-eighteenth century, the city still dominated the English economy of the century to a remarkable extent. Specific GDP figures for London are not available; however other assessments do illustrate this dominance. Rubinstein suggested that 39% of all British income taxes paid in 1806 were paid in London.<sup>38</sup> Although supposedly based on data from the 1815/16 Parliamentary papers, these estimates appear too high. The gross estimates and gross assessments for 1806 available in a parliamentary report of 1813 suggest that a figure of around 20% of total taxes is more appropriate. The dominance is significant and is reinforced when one examines schedule D more closely. Schedule D represents the tax paid on industrial and commercial profit and the 1806 net assessment shows that London accounted for 43% of total value assessed (Schedule D itself represented about a third of all income taxes paid). The City accounted for about half of London's total net assessment (or 22% of the total value payable).<sup>39</sup>

As an industrial centre, London continued to feature prominently in the eighteenth century economy. In the mid-1770s, it has been estimated that there were about 10,000 manufacturing and construction firms (or about one third of all businesses in London).<sup>40</sup> London's greatest advantage remained its proximity to consumers, its low transport costs and its 'downstream' production (finishing).<sup>41</sup> Although much of this activity was at the higher end of the value chain, other labour-intensive activities, such as shipbuilding, also retained their importance. As an example of the industrial strength of the city, it was the fifth or sixth largest user of steam engines at the end of the eighteenth century, with 136 steam engines, in an era where their principal use was still in mining.<sup>42</sup> In all it has been suggested that London was a growing manufacturing centre in the period 1775-1825, in

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<sup>36</sup> See below, p. 71.

<sup>37</sup> Schwarz, *London during the age of industrialisation*, pp. 92-3.

<sup>38</sup> W.D. Rubinstein, 'Wealth and the wealthy', in John Langton and R.J. Morris, *Atlas of Industrializing Britain, 1780-1914* (London, 1986), pp. 158-59.

<sup>39</sup> British Parliamentary Papers Online, 1812-13 (64) *Accounts Relating to the Property Tax* (February, 1813), pp. 26-9., pp. 26-9. London is defined as London, Westminster and Middlesex. This figure is similar irrespective of Scotland's inclusion. For the background on the income tax and some assessment of its overall introduction see P.K. O'Brien, 'The Triumph and Denouement of the British Fiscal State: Taxation for the Wars against Revolutionary and Napoleonic France, 1793-1815', Christopher Storrs (ed.), *The Fiscal Military State in 18<sup>th</sup> Century Europe* (Ashgate, 2008), pp. 167-200.

<sup>40</sup> David Barnett, *London, Hub of the Industrial Revolution, A Revisionary History 1775-1825* (London, 1998), pp. 28.

<sup>41</sup> Schwarz, *London during the age of industrialisation*, pp. 231-2.

<sup>42</sup> John Kanefsky and John Robey, 'Steam Engines in 18th-Century Britain: A Quantitative Assessment', *Technology and Culture* 21.2 (1980), p. 175. London engines were used in the brewing industry and in foundries, as well as waterworks.



terms of the number of activities undertaken, as well as the specialization and size of the firms.<sup>43</sup>

As a service centre, London was if anything even more important. The service sector, which included bankers, merchants, lawyers, drapers and mercers was exceptionally prominent in London.<sup>44</sup> Something of London's dominance of the service sector of the economy can be seen when one considers that about 25% of the country's solicitors lived there in 1729.<sup>45</sup> If anything the proportion of attorneys living in London increased thereafter: figures for 1775 show that almost 35% of all registered attorneys were based in London.<sup>46</sup> In other areas London's dominance was even more pronounced: of the 16 insurance companies in Britain at that stage, three quarters were based in London.<sup>47</sup> Another important element of London's service economy was its role as a transport and communication hub, which supported an extensive infrastructure. It was the focal point of the country's mail-coach services, while its coffee houses and inns were important sources of information and communication throughout the century.<sup>48</sup> Then there was of course the port itself, with extensive national and international links, which also created a domestic requirement for extensive financial services.<sup>49</sup>

## II – International trade

Although the capital market is the most studied part of London's financial cluster, the city's strength was in reality based on the breadth and depth of the financial services that it could offer, including capital market activity, insurance and banking. One of London's clear strengths was its position as an international trading centre. International trade through the port had grown rapidly in the seventeenth century. Exports in 1662-3 were about £2 million, growing to about £3.5 million per annum in 1698-1701 period.<sup>50</sup> In 1700 the city accounted for 80% of England's imports, 70% of the country's exports and 86% of its re-exports. By 1800, 66% of all English exports were still routed through the port, as were 62% of combined exports and re-exports.<sup>51</sup> London was the prime beneficiary of a 'commercial revolution' which saw the volume of British overseas trade double between 1700 and 1780. This commercial success in turn encouraged the formation in London of commodity markets and a deep shipping and marine insurance market.<sup>52</sup> London met a growing

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<sup>43</sup> Barnett, *London, Hub of the Industrial Revolution*, pp. 219-20.

<sup>44</sup> Schwarz, *London during the age of industrialisation*, p. 233.

<sup>45</sup> Schwarz, 'London, 1700-1870', p. 649.

<sup>46</sup> Victor Belcher, 'A London Attorney of the Eighteenth Century: Robert Andrews', *The London Journal* 12.1 (1986), p. 40.

<sup>47</sup> A.H. John, 'Insurance Investment and the London Money Market of the Eighteenth Century', *Economica* New Series 20.78 (1953), p. 157.

<sup>48</sup> Fisher, 'London as an "Engine of Economic Growth"', p. 191; J.A. Chartres, 'The Capital's Provincial Eyes: London's inns in the Early Eighteenth Century', *London Journal* 3.1 (1977) pp. 36-8

<sup>49</sup> Michie, *London as a Financial Centre*, p.xiii.

<sup>50</sup> K.G. Davies, 'Joint-Stock investment in the Later Seventeenth Century', *ECHR* 4.3 (1951-2), p. 286.

<sup>51</sup> Chapman, *Merchant Enterprise*, p. 40.

<sup>52</sup> Cassis, *Capitals of Capital*, pp. 17-18.

domestic demand for American and Asian consumer goods and North European raw materials; it supplied Europe with re-exports of these same American and Asian goods; and it provided America and Africa with British manufactures. Trade was controlled from the Royal Exchange, with only the Corn Exchange (1749) and Coal Exchange (1770) emerging as specialist exchanges at this point. Information could be gained and businesses run from the nearby coffee houses.<sup>53</sup> Mortimer's directory of 1763 listed some 1,365 merchants, the 1774 directory 1,220. These were large firms by the standard of the day: on average they were insuring £4,059 worth of goods. By 1786 the starting capital needed for a merchant house was thought to be £30,000.<sup>54</sup>

One of the most commonly used measures to show London's importance as a trading port is the volume of shipping owned by merchants in the city. Although London was growing more slowly than most of the outports over the course of the eighteenth century (only Bristol grew slower), in 1788 the tonnage of ships owned in London was nonetheless three times that of the nearest port (Newcastle). To put it another way, London owned 30% of total English tonnage at that point.<sup>55</sup> London's position as a trading centre benefited from its position in the economically buoyant North Sea region and the gradual undermining of Amsterdam as a commercial hub, which had started by 1700. Initially the benefits of Amsterdam's decline did not accrue directly to London, but were shared with Hamburg from 1690 to 1730. It was ultimately 'through the creation of a *national* entrepôt within an imperial trading network' that London came to dominate its continental rivals as a trading centre.<sup>56</sup> Hope & Co's scheme in 1782 to corner the European market in cochineal, a product used in the dyeing industry, provides an example of London's growing relative importance in international trade. When the plan was devised by Hope's broker Voute, it was believed that the largest share of the purchases would occur in the Amsterdam market. However in reality, the chief centre for purchases and sales was found to be London. Purchases had been 40% greater, and sales at 1,222 seroons had outnumbered those in Amsterdam by 659. This illustrates the shifting balance between London and its chief competitor in commerce by the late 1780s, but also indicates that some of the leading commercial figures in Europe were not fully aware of these changes.<sup>57</sup>

However it was not just the volume of English trade that was growing. As trade was carried out over greater distances, so English merchants began to organise that trade more effectively. To exploit successfully the colonial natural resources it was necessary to develop better techniques and commercial best practices. The period 1660-1700 had witnessed:

the accumulation and improvement of capabilities which made London the leading commercial centre in Europe; the expansion, diversification, and technological

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<sup>53</sup> Kynaston, *City of London*, pp. 9-10.

<sup>54</sup> Barnett, *London, Hub of the Industrial Revolution*, pp. 203-4.

<sup>55</sup> Ralph Davies, *The Rise of the English Shipping Industry in the 17<sup>th</sup> and 18<sup>th</sup> Centuries* (Newton Abbott, 1972), pp. 33-5; see also Chapman, *Merchant Enterprise*, pp. 40-1.

<sup>56</sup> David Ormrod, *The Rise of Commercial Empires, England and the Netherlands in the Age of Mercantilism, 1650-1770* (Cambridge, 2003), pp. 336-7.

<sup>57</sup> Marten G. Buist, *At Spes Non Fracta, Hope & Co. 1770-1815, Merchant Bankers and Diplomats at Work* (The Hague, 1974), pp. 450-1.

improvement of manufacturing capacity in the capital and beyond; the extension and enhancement of transport networks to create an increasingly integrated and commercialized national economy; and a major investment in the mathematical and mechanical skills which raised England to technological leadership in Europe.<sup>58</sup>

This included the development of commercial networks, often with strong kin or religious elements, that could bring goods effectively to market; a shift to commission trading and the use of longer usance bills of exchange; and better planning of voyages, which reduced shipping costs.<sup>59</sup> Distribution of colonial goods abroad and within England also strengthened London's role within the domestic economy. Together with better, more relevant education and training, this created over time a genuinely commercial society.<sup>60</sup>

The growth of London's trading function also encouraged an increasing specialisation in financial activity. For, as has already been noted, at the heart of merchanting stood the need to provide credit. Merchants were constantly giving and receiving credit. Unfortunately getting a really satisfactory understanding of this is hampered by the loss of the records of many of these merchant firms. Those examples that do survive universally point to substantial merchants being heavily involved in finance. As an example, Messrs Mills, sugar merchants in London, needed to extend credit to planters in the colonies frequently advancing sums of £2,000, and also additionally financed the activities of Liverpool and Bristol slave traders that formed part of this trading network. Merchants thus required substantial capital to conduct their businesses, which was supplemented by loans from outside sources. The problem for these merchant firms tended to be periodic illiquidity. Indeed the financial capacity of merchants has led to tentative suggestions that the financial capacities of London merchants may have retarded the growth of real banking.<sup>61</sup>

The other obvious development that can be linked to the increasing volume and sophistication of trade is the growth in marine insurance, a sector that has still not been adequately studied by historians. This development started as late as the Restoration period, but by the mid-eighteenth century London was the leading insurance market in Europe. Although regional insurance centres existed in the major and minor provincial ports, including Yarmouth and Lancaster, they were much smaller than those of London.<sup>62</sup> Furthermore they were not independent, with premiums in these local centres for example being dependent on prices set in London. Aside from the two chartered companies (which

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<sup>58</sup> Nuala, *The Capital and the Colonies*, p. 285.

<sup>59</sup> *Ibid.*, pp. 285-88.

<sup>60</sup> *Ibid.*, pp. 290-2. She notes that 70% of colonial imports arrived into London, but only 15% were retained there.

<sup>61</sup> D.W. Thoms, 'The Mills Family: London sugar merchants of the eighteenth century', *Business History* 11.1 (1969), pp. 7-10; R. Pares, 'The London sugar market, 1740-1769', *EcHR* 9 (1956), pp. 254-70.

<sup>62</sup> Carolyn Downs, 'The business letters of Daniel Eccleston of Lancaster (1745-1821): Trade, commerce and marine insurance in late eighteenth century Liverpool, Lancaster and Whitehaven', *Northern History* 41 (2004), pp. 135-47.

may have accounted for 10% of all premiums in 1720), this market was dominated by the insurance brokers, although by 1780s specialised underwriters also began to feature.<sup>63</sup>

The significance of London's mercantile advancement throughout the seventeenth century, and the increasing use of London for making large-scale interregional and international payments, has been acknowledged as part of the reason causing a growing demand for banking facilities there.<sup>64</sup> The relationship between commerce and banking is a subject that will be revisited in greater detail in following chapters. For now it is important to acknowledge the importance of trade in shaping London's position as a financial centre, both through the demand it generated for financial services and through merchants' adaptations and innovations to successfully meet the challenges they faced.

### III - Capital Markets

Of Kynaston's four pillars of the City, the one that has received the greatest attention in the eighteenth century is the development of what would become the stock exchange, which was tied to the finance of the English government. As early as the 1720s, London came to be the location of the 'the largest mass of tradeable securities available to European investors'. Over the course of the century, the government's demand for money created Europe's deepest, most liquid capital market.<sup>65</sup> The creation and early development of this market was covered in the previous chapter and does not need repeating here.<sup>66</sup> The eighteenth century witnessed an enormous expansion in the levels of English debt issuance. The English national debt stood at £3.1 million in 1691, rising to £54.0 million in 1720, £78.0 million in 1750 and £456.1 million in 1801.<sup>67</sup> This can be understood as a response to the need to fund ever more expensive wars as Britain took a more pro-active involvement in continental affairs compared to the previous century.<sup>68</sup> Indeed, the increases all occurred in periods of warfare, with the exception of the period 1717-1720, while the wars of the second half of the century were significantly more expensive than the earlier ones. London to a degree therefore benefited from being the seat of government and most of this increased debt was raised through the London markets. In the early stages, foreign investment was also important in helping the market to develop. Amsterdam in particular played an important initial role in this developing the market and funding the debt. In 1776, foreigners owned about 20% of all 3% Consols (just under £8 million), 85% of this foreign-owned debt being in the hands of the Dutch.<sup>69</sup> The Dutch influence only declined in the 1780s, as they substantially disinvested between 1786 and

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<sup>63</sup> A.H. John, 'The London Assurance Company and the Marine Insurance Market of the Eighteenth Century', *Economica* New Series 25.98 (1958), pp. 142-4.

<sup>64</sup> Joslin, 'London private bankers', p. 167.

<sup>65</sup> Neal and Carlos, 'London and Amsterdam as financial centres', pp. 34-7.

<sup>66</sup> See above, pp. 40-46.

<sup>67</sup> Mitchell, *British Historical Statistics*, p. 600.

<sup>68</sup> Cassis, *Capitals of Capital*, p. 16.

<sup>69</sup> Wright, 'The contribution of overseas savings to the funded national debt of Great Britain', pp. 664-66. Dutch holdings of all foreign English national debt were about 16% in the mid 1770s, see *ibid.*, p. 658.

1792.<sup>70</sup> Government securities dominated the capital market, and its role in directly financing trade and industry was more limited.<sup>71</sup> The post-bubble act restrictions on joint-stock companies were an obvious impediment to such developments. However some other opportunities were available to investors. Investment in the 'monied companies' offered a combination of government and commercial exposure. A small number of pure corporate investments were also available, most notably perhaps through the insurance companies. Total investable funds of the nine corporate insurers for which data is available rose from £0.25 to £4 million between 1720 and 1800, a compound growth rate of 3.5% per annum for eighty years.<sup>72</sup>

In the context of this study, the development of the national debt itself is of less interest than the opportunity it presented for other financial specialists to emerge. The development of a significant national debt encouraged further specialisation in finance: it led to the development of a clearly defined 'financial interest' in the City. Brewer, somewhat unkindly, described this interest as a 'consortium of bankers, "monied men", investors, speculators and stock-jobbers who lived parasitically off the state's need to borrow money to fund its wars'. This was a significant departure in that these intermediaries were no longer associated with the government through tax collection in a way that lenders to the government had been in the seventeenth century.<sup>73</sup> London's merchant community featured prominently in bringing these new issues to the market. They were clearly involved in floating not just the loans of the British government, but also foreign loans from a fairly early stage. A quarter of the £2 million loan raised by the new East India Company in 1698 is said to have originated from London merchants, to the surprise of foreign observers.<sup>74</sup> This is not a place for a complete analysis of the government loan issuance. Instead it is intended to indicate how a relatively deep pool of merchant financiers emerged within London.

Merchant financiers are readily identifiable from an early stage. Sir Gilbert Heathcote was a Baltic merchant who subsequently became heavily involved in government finance, contributing £8,000 to the first subscription to the Bank of England and he remained active with the Bank until his death in 1733, serving twice as governor. He was also a commissioner involved in raising £250,000 in London on behalf of the Hapsburg emperor in 1706.<sup>75</sup> The career of Sir Harry Furness offers a similar example of the progression from merchant to international financier at this time.<sup>76</sup> Sir Francis Eyles, originally a haberdasher, became a commission agent in the Atlantic sugar trade and then a director of the Bank of England in 1697. However it was his role as a commission agent supplying bills of exchange for the army in Flanders that really made his fortune. During the period from 1696 to 1706,

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<sup>70</sup> Ibid., pp. 671-3.

<sup>71</sup> There may have been indirect benefits to trade, commerce and industry from the expansions of the capital markets, as the use of transferable instruments in state finance could free up funds that could flow towards other forms of longer-term lending. See Michie, *London as a Financial Centre*, p. Xxiii.

<sup>72</sup> John, 'Insurance Investment and the London money market', p. 158.

<sup>73</sup> Brewer, *Sinews of Power*, p. 206-7.

<sup>74</sup> Gauci, *Emporium*, p. 149.

<sup>75</sup> Jacob M. Price, 'Sir Gilbert Heathcote', *ODNB*, online edn, Jan 2008.

<sup>76</sup> Gauci, *Emporium*, p. 153.

he was instrumental in raising money to remit to these armies, including being part of a syndicate that raised £300,000 at 8% and being a manager for the remittance of £250,000 to Prince Eugene in Italy.<sup>77</sup> While some merchants appeared to be putting their own fortunes to work in the stocks, others were also taking on the role of middlemen. Sir Peter Delmé (1667-1728) invested about 13% of his £200,000 fortune in Bank and South Sea stock, but held another £200,000 of financial assets on behalf of others.<sup>78</sup> Similar experiences can be identified for government financiers as the eighteenth century progressed. The Russia merchant Samuel Holden became involved in the affairs of the Bank of England, serving as governor in 1729-31 and serving on the court of directors for twenty years. He also served as one of the City trustees for a £370,000 loan to the Holy Roman emperor in 1737.<sup>79</sup>

All these merchant financiers required connections and wealth to operate successfully, traits that remained constant into the latter part of the eighteenth century. Gauci defined the merchant-financier as a person with substantial control/influence within one of the three monied companies, whose chief concern was in financing the government and maintaining macro-economic stability. He estimates that they numbered no more than a few dozen at any one time.<sup>80</sup> Brewer similarly emphasises the role of connections, arguing that the 'typical eighteenth century loan manager and contractor was a man with good banking and mercantile connections', that he would often be connected to either the Bank of England or the East India Company and that he was usually wealthy. This was certainly true of the leading mid-century financiers, who included John Gore, George Amyand (banker to diplomatic service), Sampson Gideon, Samuel Fluyder (America), Richard Atkinson and George Wombwell, and Chauncy Townsend.<sup>81</sup> A large number of financiers also served as Directors of the Bank of England. It has been argued that the presence of substantial international traders of known credit serving as directors encouraged confidence in the Bank as an institution in its early life.<sup>82</sup> Similarly a directorship of a City company further enhanced the standing of the merchant.<sup>83</sup> In some instances this status was unjustified: Humphry Morice, an African slave trader who became governor of the Bank, was upon his death discovered to have been acting fraudulently.<sup>84</sup>

While many of these financiers eventually became very wealthy, they did not always start out with vast wealth. Sampson Gideon (1699-1762) originated from a Portuguese Jewish family, although he left this faith in 1753. His father had been a West India merchant of unexceptional wealth, who had come to London via Hamburg and Barbados. Sampson himself never appears to have worked in the family's merchant business, but instead was active from 1719 as a jobber or broker. It was a combination of skill, initiative and fortunate

<sup>77</sup> Richard Grassby, 'Eyles Sir Francis', *ODNB*, online edn, Jan 2008.

<sup>78</sup> Gauci, *Emporium*, p. 157.

<sup>79</sup> Jacob M. Price, 'Samuel Holden', *ODNB*, online edn, Jan 2008.

<sup>80</sup> Gauci, *Emporium*, p. 154.

<sup>81</sup> Brewer, *Sinews of Power*, pp. 208-9.

<sup>82</sup> Gauci, *Emporium*, pp. 148-9, 152. He highlights the role of governor Sir William Scawen in 1697 in establishing the Bank of England's credibility.

<sup>83</sup> *Ibid.*, p. 152.

<sup>84</sup> James A. Rawley, 'Morice, Humphry', *ODNB*, online edn, Jan 2008. For the general significance of early merchants see Richard Grassby, 'Merchant capitalism', *Past and Present* 46 (1970), pp. 87-107.

timing that allowed him to make his reputation in the Austrian War of Succession and the Seven Years War. In 1742 he created the first “list” of Jewish subscribers to a government loan, raising £600,000, and he contributed substantial subscriptions for most of the subsequent loans of the Austrian War (including a subscription of £1.07 million in 1746). He also started advising the government on loan floatations. In this latter role he would become even more important in the Seven Years War, when he became a principal financial adviser to the Duke of Newcastle.<sup>85</sup> While Gideon was foremost amongst the mid-century contractors, others were also of considerable note. In the Austrian War of Succession, Portuguese merchants Peter Burrell and John Bristow contracted to remit money overseas, raising £240,000 of the £1.8 million loan of 1744. These men also developed innovative ways to raise loans for the government. Previously these had been arranged through government contracts, but in 1746 Henry Pelham and John Bernard devised a system of ‘open’ subscriptions. Regardless of this innovation, investment in new subscriptions remained confined to a small initial grouping. Half of the £6.3 million pound loan of 1748 was covered by 139 subscribers, of whom 75% sold out before the ledgers of the loan were opened. This should not be seen as pure profiteering, as it is possible that they had already pre-arranged to sell on parts of their stakes. Alongside floating new government issues, most of these merchant financiers also provided other financial services for the government, especially for contracts to finance overseas troops and garrisons. This reflected the substantial capital required for both operations, and the time needed to realise a profit. John Gore, a Hamburg merchant, handled over £5 million of remittances.<sup>86</sup> This remittance and army contracting business was lucrative for some for the merchants of slightly lesser substance. This can be seen in the case of Richard Oswald, who used the logistical and financial skills he had acquired as a merchant to supply troops in Germany with bread for four and a half years during the Seven Year Wars, earning a £112,000 in the process.<sup>87</sup>

What is conspicuous in all these examples is the lack of continuity between merchant financiers. There was no equivalent to the merchant banking firms that had already developed in the Netherlands for example. Samson Gideon had a son and two daughters but his main concern for these children was to see them advance socially: his eldest daughter became Lady Gage, while his son was raised to the baronetcy.<sup>88</sup> However over the latter part of the century this absence of continuity did begin to change. An example of this can be seen in the case of the Vannecks. Little is known in detail about this family’s business, yet they established themselves as important financiers in the latter half of the eighteenth century. They were an important Dutch family and the first Sir Joshua Vanneck became involved in financing the British government in the era of the Duke of Newcastle, for which he was made a baronet. Little has been written on this Sir Joshua, despite his

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<sup>85</sup> For Sampson Gideon see Lucy Sutherland, ‘Samson Gideon: Eighteenth century Jewish Financier’ in idem, *Politics and Finance in the 18<sup>th</sup> century* (London, 1984), pp. 387-98. A short description can also be found in Gauci, *Emporium*, pp. 160-1.

<sup>86</sup> Gauci, *Emporium*, p. 159.

<sup>87</sup> David Hancock, *Citizens of the World, London merchants and the integration of the British Atlantic community, 1735-1785* (Cambridge, 1995), pp. 226-39. This refers to profits on the supply of bread only. There were further sources of income associated with the role.

<sup>88</sup> Sutherland, ‘Samson Gideon: Eighteenth century Jewish Financier’, pp. 395-97.

importance as 'a mighty financier of Dutch extraction, who had interests in every part of Western Europe and America'.<sup>89</sup> A general trader by background, he came to prominence by organising syndicates of Dutch merchants who wished to invest in British government securities. In 1757 he contributed half a million pounds towards a £3 million loan raised by the government.<sup>90</sup> Together with Zachary Fonnereau and George Amyand, he was crucial to the financing of the latter part of the Seven Years war.<sup>91</sup> His eldest son Gerard Vanneck seems to have removed the family more firmly into London, withdrawing assets from Amsterdam prior to his death in 1791.<sup>92</sup> A second Joshua Vanneck (1745-1816), brother of Gerard, became the 3<sup>rd</sup> Baronet and was raised to the peerage as Lord Huntingfield.<sup>93</sup> It is known from a document in the Barings archive that he still featured as a financier in the French Revolutionary and Napoleonic Wars, as he served on committees with Sir Francis Baring.<sup>94</sup>

As the century progressed, and particularly as the full impact of the French Wars begun to be felt in 1790s, the opportunities in the issuance business increased. Samuel Thornton, the brother of the banker Henry Thornton, succeeded to his father's business in Hull, trading with the Baltic. He became a director of the Bank of England in 1780 and would serve as governor from 1799 to 1801. He was clearly well-informed on financial matters and as an MP spoke to address the major financial crisis in parliament in the 1790s.<sup>95</sup> While there were opportunities for lesser merchants to transition to this role, certain merchant firms featured especially prominently. Boyd, Benfield & Co became a significant firm of loan contractors in the City at this point, while other important firms included Godschall, Johnson & Co, J.J. Angerstein & James Morgan, and James & William Mellish. The role of these principal contractors was to form a list of subscribers for the loans being offered by the government. Deposit taking banks formed a core part of these lists. Thus for the 1796 loan, the banking house of Newnham, Everett & Co was allowed a subscription of £30,000 (apparently much less than they had desired).<sup>96</sup> The distribution of Boyd & Co's portion of an £18 million loan issued by government is illustrative of the connections between various financial firms. The firm's total list amounted to just over £5.7 million, of which the firm held onto £1.2 million. A further £1.2 million was distributed between a variety of banking houses, with Smith, Payne & Smith receiving some £650,000. This left a sum of approximately £3 million to be distributed between London merchants and brokers, including JJ Angerstein; Godschall, Johnson & Co; Charles Herries & Co and William Ker & Co.<sup>97</sup> Towards the end of the century some deposit bankers became directly involved in the negotiations with the government to raise money, especially in times of war. Thus the

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<sup>89</sup> L.B. Namier, 'Brice Fisher, M.P.: A Mid-Eighteenth-Century Merchant and His Connexions', *The English Historical Review* 42 (1927), p. 525.

<sup>90</sup> Gauci, *Emporium*, p. 161. The family became naturalised British citizens in 1731.

<sup>91</sup> Reed Browning, 'The Duke of Newcastle and the Financing of the Seven Years' War', *The Journal of Economic History* 31.2 (1971), pp. 356-7.

<sup>92</sup> Spufford, 'From Antwerp and Amsterdam to London', pp. 166-7.

<sup>93</sup> *Debrett's Peerage of the United Kingdom of Great Britain and Ireland*, 18<sup>th</sup> edition (London, 1829), vol. II, pp. 907-8.

<sup>94</sup> Baring, Northbrook Papers, NP1A 6.1.15. See below, pp. 74-5.

<sup>95</sup> Michael Reed, 'Thornton, Samuel', *ODNB*, online edn, Oct 2009.

<sup>96</sup> Cope, *Walter Boyd*, p. 82.

<sup>97</sup> *Ibid.*, p. 89.



partners in Glyn, Mills and Co received an invitation from Messrs Lefevre and Co to attend a meeting with Mr Pitt. The exact purpose of this meeting is not clear, but might relate to an enclosed document outlining plans to raise money for the government by issuing £110 debentures at £100, paying 5% interest and repayable at the end of the war.<sup>98</sup>

However not all deposit banks wished to be engaged in such ventures. In June and July 1786, Francis Baring was involved in a scheme to purchase £800,000 of East India Company annuities. The plan was to create a consortium together with Hope & Co, who would find £300,000 of the total, while Barings themselves would hold £100,000 and seek partners to purchase the outstanding half. Baring, who had close connections with the Company, believed that this was a good opportunity as the market was excessively pessimistic on the fortunes of the Company and because the annuities were easily used as collateral for advances and, unlike the shares, the interest payments were effectively underwritten by the government.<sup>99</sup> A key part of the scheme involved the formation of consortium to provide half of the suggested £800,000 total. In this instance invitations to participate in the scheme were sent to other financial houses, effectively providing a prospectus for the Baring's scheme. While most of the responses have not survived, that from Drummond's Bank is available. They declined to partake in the venture, for fear of their reputation, 'not wishing to be considered as speculators in the Stocks'.<sup>100</sup>

The firm of Boyd, Benfield & Co was one of the leading contractors in government loans during the French wars. Walter Boyd learnt his business in France as Boyd, Ker et Cie. He had strong Scottish connections, becoming Vice-President of the Scottish Corporation in London.<sup>101</sup> Upon his return to England he went into partnership with Paul Benfield. Benfield enjoyed a poor reputation even for a nabob, but was of considerable wealth. He made his initial advances in India 'making fictitious loans', then lending money on the security of the lands of Tanjore. He was suspended from the East India Company on a number of occasions and endured voluntary exile from England. They launched the firm of Boyd, Benfield & Co on the 15 March 1793.<sup>102</sup> By this point Benfield had set himself up as a country gentleman, buying Watton Wood Hall and its estate in Hertfordshire for £125,000. A third partner was recruited in 1793. James Drummond had served at Charles Herries & Co since 1784. He received a notional share of £5,000, but did not share in the losses of the firm and had to pay interest on the £5,000. He was active in business, dealing with 'correspondence'. Benfield was not active in the management the firm.<sup>103</sup> The firm soon came to hold a significant business in London, and despite the somewhat dubious reputation of one of its partners, it was held in enough regard to act as the London agent to the emperor of Austria.

The early business of this merchant bank was in foreign exchange, importing gold from Hamburg and Lisbon. It also started handling finances of merchant firms, the first account

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<sup>98</sup> RBSGA, Glyn Mills Currie & Co, Guard book, volume 1, 26 Nov 1794.

<sup>99</sup> Baring, Northbrook Papers, NP1A, 23.13 M26, ff. 1-2.

<sup>100</sup> Baring, Northbrook Papers, NP1A, 23.14.

<sup>101</sup> Cope, *Walter Boyd*, pp. 40-41.

<sup>102</sup> *Ibid.*, pp. 37-9.

<sup>103</sup> *Ibid.*, pp. 40-3.

being the Scottish firm of Alexander Houston & Co, a connection that proved to be problematic in the long run. The business for this firm was carried out through Boyd & Co's account with Smith, Payne & Smith, and also at one stage through an account with the Bank of England and soon Boyd had advanced £138,000 on Houston's behalf.<sup>104</sup> It would appear that the relationship with Smith, Payne & Smith was essential to the firm's functioning. As well as providing a broad client base that could be expected to participate in loan offerings, it was also a discounter of Boyd & Co's bills. Smiths' caused the firm some difficulties when it placed a limit on these discounts and then caused a collapse in the firm's credit when it refused a £600 bill in June 1798.<sup>105</sup>

Indeed, while the issuance of English government debt could lead to considerable wealth, it was clearly not risk free. The Goldsmids rose to prominence as loan contractors, but spectacularly failed towards the end of the war.<sup>106</sup> The house of Boyd, Benfield & Co was undone at an earlier stage by overextending itself. Although the spark that precipitated this collapse was the Smiths' decision to stop discounting the firm's bills, the underlying cause of the firm's failure appears to have been a Scottish merchant firm. Francis Baring believed Boyd, Benfield & Co had saved Houston & Co from ruin initially, but that they had 'in their turn by an abuse of the Liberality of the House in London been the chief cause in its Overthrow'. This letter also raises criticism of another Scottish firm, McDowall's, with whom Benfield appears to have had dealings.<sup>107</sup> There is an interesting parallel here with events in 1772, where imprudent Scottish connections had caused the downfall of the bank of Fordyce, Neale & Co. Sir Francis Baring was well placed to comment on the failure of Boyd, as he was closely involved with in the process of resolving the fallout from the House's failure. A scheme was developed whereby important merchant houses, including Hope's, would subscribe shares of £5,000 each in a loan of £80,000 to the company to be made on security of Benfield's estates, although this appears to have foundered on the question of security.<sup>108</sup>

Francis Baring had by this stage already established himself amongst the premier group of merchants and was substantially involved in the issuance of state debt in his own right. The business had been an area of strong growth for the firm from 1780 onwards. That Francis Baring became involved in government finance is not surprising: he had probably experienced work on government contracts under his mentor, West India and Manchester merchant Samuel Touchet. Baring's first involvement in government finance came in America, as he participated in the provision of loans to the government during the American War of Independence, as well as moving into other early financial initiatives in the America.<sup>109</sup> However the real increase in this business came in the French Wars, as Baring's participated as a contractor in issuing government loans. This was risky but could

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<sup>104</sup> Cope, *Walter Boyd*, pp. 41-2.

<sup>105</sup> *Ibid.*, pp. 143, 152.

<sup>106</sup> S.R. Cope, 'The Goldsmids and the development of the London money market during the Napoleonic Wars', in R.C. Michie (ed.), *The Development of London as a Financial centre*, vol. 1 (London, 2000), pp. 192-97.

<sup>107</sup> Baring, Northbrook Papers, NP1A 19.4, copy letter relating to Boyd Benfield, 15 Dec 1798.

<sup>108</sup> Baring, Northbrook Papers, NP1A 19.4, Hope & Co to Charles Wall, 2 July 1798.

<sup>109</sup> Austin, *Baring Brothers and the Birth of Modern Finance*, pp. 11-16.

be very profitable: in 1799 loans accounted for £21,000 of profit, or half the firm's total for that year.<sup>110</sup> Participation in such wartime finance required considerable skill. Francis Baring himself noted the difficulty of the remittance of subsidies to the Austrians, as the places through which such advances could be made on credit, such as Holland, Antwerp, Brussels and even parts of northern Germany were susceptible to French 'vengeance'. The document also makes clear that the operation was too large for Baring's to carry out by itself. At the same time there was a requirement for secrecy as 'the operation on the continent must after be confidential and of a nature that we could not communicate to others'. This meant that the house was apparently not willing to make formal agreements with other houses to co-operate on these schemes.<sup>111</sup>

It was of course not just the issuance business which saw significant advances. Central to the effective functioning of the secondary market were the stockbrokers. From a very early stage the attraction of the 'monied companies' was their accessibility. Prices were regularly advertised through the press and transactions were not taxed. Furthermore there existed a ready supply of brokers who were happy to deal in these securities, and encouraged dealing through techniques such as 'refusals' and 'puts'. Initially based in the Royal Exchange, in 1698 they would move to Change Alley, in particular Jonathan's Coffee House. This would eventually in 1773 become the London stock exchange.<sup>112</sup> The market was very liquid. After the South Sea Bubble, registered transfers of government stock were in the region of 4,000 to 7,000 per annum through to 1750, at which point the consolidation increased turnover to 20,000 transfers per year. This was indicative of the attraction of long-term, income paying securities to the investing public in this period.<sup>113</sup> It is argued that it was investor appetite, not the needs of borrowers that drove the growth of the British securities market of the eighteenth century.<sup>114</sup> One example of this might be the utility of the stocks in settling legacies upon family members, in preference to lottery loans or life-assurance.<sup>115</sup> Government securities provided a useful avenue for merchants to invest/deposit cash beyond their main commercial business. Throughout the century the liquidity that the government debt, especially the Consols, could provide was important to the merchant community, despite the later emergence of other investment opportunities.<sup>116</sup>

The need of bankers and merchants to deal in stocks meant that the larger London banks and merchants could generate a substantial business for stockbrokers and the ties between these groups could become strong. The early history of James Capel & Co provides an example of this through the connection between Edmund and Philip Antrobus and Thomas Coutts. Edmund Antrobus joined the banking partnership of Thomas Coutts in 1777, but before this appears to have been a stockbroker, although not much of his activity in this

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<sup>110</sup> Austin, *Baring Brothers and the Birth of Modern Finance*, pp. 11-13. For a discussion of Francis Baring's background and other financial activities, see below pp. 91-4.

<sup>111</sup> Baring, Northbrook Papers, NP1A 23.15 (M28), ff. 1-3.

<sup>112</sup> Gauci, *Emporium*, pp. 149-50; Cassis, *Capitals of Capital*, pp. 16-7.

<sup>113</sup> Michie, *Global Securities Market*, pp. 42-3; Dickson, *Financial Revolution*, pp. 466-7, 529-30.

<sup>114</sup> Michie, *Global Securities Market*, p. 44.

<sup>115</sup> Gauci, *Emporium*, p. 152, referring to the early period of the financial revolution in particular.

<sup>116</sup> *Ibid.*, pp. 152, 161-2.

area is known. The stockbroking business was subsequently taken up by Philip, his younger brother.<sup>117</sup> The Bank of England ledgers are the sole source of Philip Antrobus' activity, but they indicate that between 1779 and 1783, he built a substantial business through his connection with Coutts' Bank. In 1782 and 1783 he purchased £110,000 of Consols from the banker and sold them into the market. Also in 1782 he was able to subscribe to £102,000 of new stock, suggesting he had become an influential applicant. By the 1790s he had likely achieved a position as a substantial subcontractor in the government loans. His reputation continued to grow to the extent that he was chosen by Pitt to manage the issuance of Exchequer bills by 1797.<sup>118</sup> One can in this instance clearly see the benefits that the support of a prominent banking house could provide. Such a beneficial relationship was not unique. Surviving correspondence suggests that the brokers Thomas, Robertson & Sutton conducted a considerable volume of business on behalf Francis Baring, carrying out orders of at least £112,000 over six days in December 1794.<sup>119</sup> It is also argued that the stockbroking house of John Francis Menet, which Philip Cazenove joined in 1819, was viable in its early years largely due to the business it received from Rothschild's.<sup>120</sup>

The brokers of the City provide an example of the benefits of London's relatively open and cosmopolitan nature in developing new financial business activities. For much of the eighteenth century, this profession was held in very poor esteem, with one commentator describing brokers as 'vermin who took advantage of the public folly'.<sup>121</sup> Some of the criticism derived from the association of this group with foreigners. The work of Carlos, Maguire and Neal has shown that Jews did feature reasonably prominently in the South Sea Bubble, participating in 20% of all transactions. They also argue that these Jews, through their strong connections to the Amsterdam market, provided much needed expertise and a perspective that may have helped to stall an even more severe crash.<sup>122</sup> Yet other brokers clearly developed domestically. One can note that the three most substantial brokers in the South Sea Bubble were Sir George Caswall, Robert Westley, a merchant tailor, and James Martin, formerly a goldsmith, were all English.<sup>123</sup> Edmund Antrobus, who established the stockbrokers now known as Capel & Co in 1776, originated from Cheshire.<sup>124</sup>

It was not just in the broking sphere that immigration was important. The widespread relocation of foreign talent, especially Dutch bankers and brokers and French Huguenots, to the City of London and their role in developing financial techniques and driving the volume

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<sup>117</sup> M.C. Reed, *A History of James Capel & Co* (Bristol, 1975), pp. 1-3.

<sup>118</sup> *Ibid.*, pp. 11-16. Note this contrasts with the Cope's opinion that the Goldsmids were responsible for placing these shares.

<sup>119</sup> Baring, Northbrook Papers, NP1.A 22.5. Other orders are also listed in this document, for example the sale and purchase of over £180,000 on 17 March 1794, for a profit after commission of £253.

<sup>120</sup> David Kynaston, *Cazenove & Co., A History* (London, 1991), pp. 13-22.

<sup>121</sup> Lord Elibank, cited in Dickson, *Financial Revolution*, p. 254. For a more general overview, see for example H.V. Bowen, 'The pests of Human Society': Stockbrokers, Jobbers and Speculators in Mid-eighteenth century Britain', *History* 78 (1993) pp. 38-42.

<sup>122</sup> Ann M. Carlos, Karen Maguire and Larry Neal, 'A knavish people. . .': London Jewry and the stock market during the South Sea Bubble' *Business History* 50.6 (2008), pp. 735-9, 744.

<sup>123</sup> *Ibid.*, p. 739.

<sup>124</sup> Reed, *James Capel & Co*, pp. 1-2.

of business taking place have underpinned the understanding of London's emergent position.<sup>125</sup> Cassis claims the experience of the City's bankers and financiers in foreign issues 'barely dated back to before the wars of the Revolution'. He regarded Walter Boyd's raising of the first Austrian loan of £3 million as the first significant example of this type of activity. Equally he suggests that Barings gained their leading position in this business under the tutelage of Hope & Co of Amsterdam.<sup>126</sup> However it is perhaps important not to overstate the significance of the immigrant communities. For instance in the case of Francis Baring, Buist has argued that the Hopes' relevance to Baring's emergence was not that substantial, and that ultimately the most significant contribution of the Dutch house was the provision of its capital to Barings in 1794/6. He equally highlights the willingness of English merchants to move abroad to learn their trades there.<sup>127</sup> One might in this respect note that Boyd had worked in both Paris and Amsterdam before setting himself up as a banker in London.<sup>128</sup>

#### IV – Banking

It is within this broader context of financial specialisation that private banking developed in London. Our understanding of this development during the eighteenth century is guided by Hilton-Price's *Handbook of London Bankers*.<sup>129</sup> The existing historical literature has already highlighted some of the more obvious flaws in this list. In particular there are instances of double counting and, perhaps more surprisingly, a number of well known banks are occasionally omitted. It should also be noted that, although Hilton Price's lists are regarded as the best available data source, the totals given for each year are probably too low.<sup>130</sup> The numbers that are now generally cited in the literature are shown in Figure 2 and provide a useful indication of the trends taking place.

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<sup>125</sup> Michie, *London as a Financial Centre*, p. Xi.

<sup>126</sup> Cassis, *Capitals of Capital*, p. 20.

<sup>127</sup> Buist, *At Spes Non Fracta*, p. 40.

<sup>128</sup> Cope, *Walter Boyd*, chapter 1.

<sup>129</sup> F.G. Hilton Price, *A Handbook of London Bankers with some Account of their Predecessors the Early Goldsmiths* (London, 1890-1).

<sup>130</sup> Joslin, 'London's private bankers', p. 172.

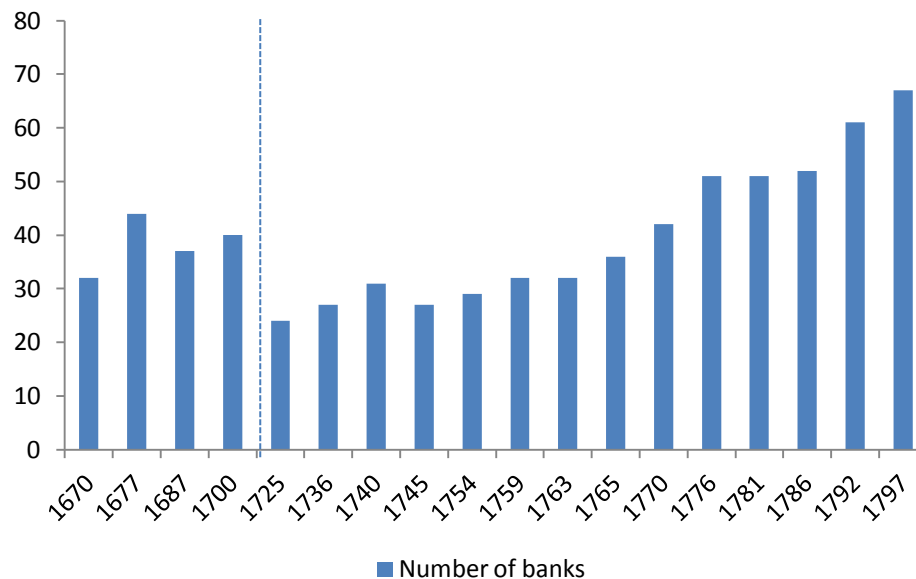


Figure 2: Number of banks in London 1670-1797, the numbers in 1670-1700 refer to goldsmiths keeping running cashes. (Source: for 1670-1700, see Melton, *Sir Robert Clayton*, p. 236-242; for 1725-1786 see Joslin, 'London Private bankers', p. 173; for 1792 and 1797 see Hilton-Price, pp. 206-7, 212-3)

Although the developments in the first quarter of the eighteenth century are unclear from this data, by 1720 London had witnessed the emergence of a core nucleus of about 25 banks. This number is noticeably lower than that of the goldsmith-bankers identified by Melton at the end of the seventeenth century. Net formation of banks in the second quarter of the century was limited and the environment for banking appears to have been volatile. In the aftermath of the South Sea Bubble weaker banks continued to fail: one third of all listed 'goldsmiths keeping running cashes' disappeared. Bankruptcies were common in 1720, 1721, 1739-42 and 1745. That the progress in the 1730s was undone by the problems of the 1740s suggests that firms were still not fully able to cope with widespread collapses in public confidence or economic crises, which still occurred with relative frequency. Yet it also relates to mistakes resulting from inexperience, such as the inability of some bankers to keep an adequate reserve of cash or liquid assets, or unwise commercial speculation.<sup>131</sup> Consequently the overall number of bankers in London grew only by five between 1725 and 1754, with a core of older houses that were particularly stable. The real growth of the banking sector was therefore concentrated in the second half of the century, when overall numbers more than doubled. Joslin noted the 'crucial importance of the foundations of 1769-73 in creating a major addition to the banking structure', identifying 13 new banks that emerged at that point.<sup>132</sup> Although those formations were significant, they occurred within a wider period of sustained growth, as the number of banks rose roughly 31% over these seven years of 1763-1770, followed by another 21% increase from 1770 to 1776. This was then followed by another surge in formations in the period 1786-1797, where net bank numbers grew by another 29%.

<sup>131</sup> Joslin, 'London private bankers', p. 171, 174. No distinction is made between West End and City banks.

<sup>132</sup> Ibid., p. 173.

There are however two problems to approaching the analysis of bank numbers in this manner. Most obviously, the irregular dates for which the total number of banks are available is not ideal. These years are those that Hilton Price included in the second part of his work. However Hilton Price's book also includes a short history of all the banks he identified. Using these, it is possible to create a continuous data series across the century. The greatest challenge to such an analysis is that Hilton Price included both goldsmiths and bankers, and in the earlier part of the century it is often difficult to establish from the short descriptions if the former carried out any banking activities.<sup>133</sup> The second issue is that considering the total number of bankers within London obscures the divide that existed between 'West End' and 'City' businesses. These descriptions reflect the two groups' differing locations within London and also the different types of activity they were engaged in. It is argued that the distinction between West End and City banks was long-standing. Of the 42 goldsmith-bankers recorded in 1677, 33 were located in the City, with the rest in the 'West End' and even at this early stage there was little contact between the two different groups.<sup>134</sup> In terms of overall numbers, City banks remained the more important group of bankers throughout most of the eighteenth century, as will be seen below. Concentrated around Lombard Street, they are often characterised as being riskier undertakings than those of the West End.<sup>135</sup> Orientated towards serving clients from the City's commercial sector, their business was distinct from those bankers of the West End, who were more likely to focus on the gentry or the legal and military professions. The extent of the differences in these firms' businesses in this period is however difficult to judge, as most early records of City banks, including those that survived, appear to have been lost.

This geographic separation was very real. A partner in Forster, Lubbock & Co complained to a customer about his remitting bills on 'Kinsington', as porters would not go there at an acceptable cost to collect the money. Equally when discussing the financial pressures of 1772, he made a clear distinction between City banks and those at 'the other end of Town'.<sup>136</sup> The distinct paths of these businesses were however not inevitable. Hoare's for example is regarded as amongst the most important of the West End banks, however in the early stages of the bank the partners made a concerted, unsuccessful effort to enter the diamond trade. Richard Hoare set up a partnership with Mr Marcus Moses in Amsterdam and also dispatched two of his sons to that city to help fulfil his ambitions in this area. The endeavour tied up substantial parts of the firm's capital between 1710 and 1720.<sup>137</sup> Following these unsuccessful attempts, Hoare's moved away from more general financial activities, such as pawnbroking, dealing in diamonds and speculation in ships to become a bank focused on meeting the needs of the aristocracy and gentry, removing lines of business with a more mercantile nature.<sup>138</sup> This shift in direction has been at least in part

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<sup>133</sup> The underlying lists still can have some influence, as often it is the only record of a firm's emergence and sometimes disappearance.

<sup>134</sup> Mitchell (ed.), *Goldsmiths, Silversmiths and Bankers*, pp. 9-10. The different customer bases of these groups is also reflected in the metal-working business, where the West End goldsmiths tended to focus on finer wares, while City goldsmiths produced larger volumes of plainer work.

<sup>135</sup> See for example Hutchings, *Messrs Hoare's Bankers*, p. 18.

<sup>136</sup> KHAC, EK-U1979/B2, Messrs Lemon & Co to James Willyams, 4 August 1772 and 23 June 1772.

<sup>137</sup> Hutchings, *Messrs Hoare's*, pp. 21-3, 24-7.

<sup>138</sup> Joslin, 'London private bankers', pp. 171-2.

attributed to the character (and change of) of the managing partner in the early 1720s.<sup>139</sup> A more detailed examination of the two types of business will be made in the following chapters. The purpose here is to indicate the differing patterns of development in the two sub-sectors, which is shown in Figure 3.

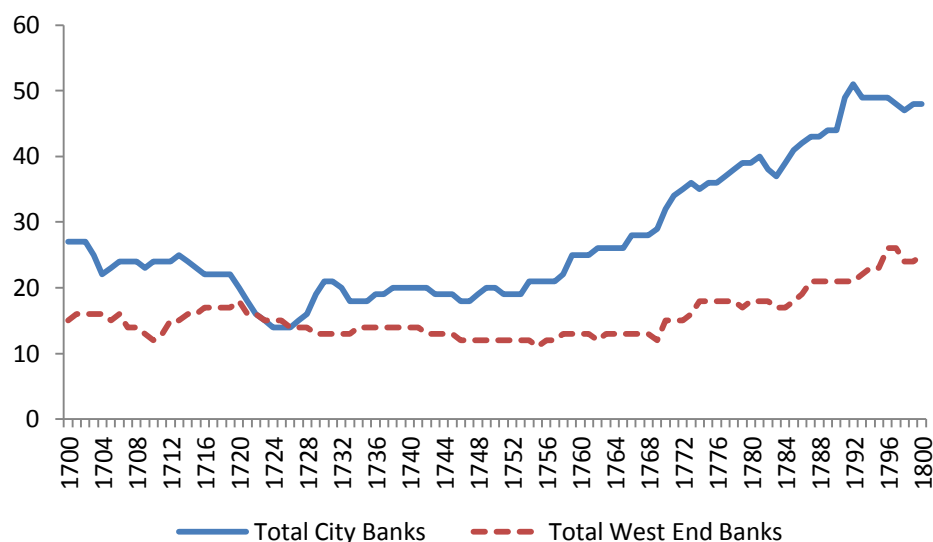


Figure 3: Growth of City and West End Banks, 1700-1800 (Source: Hilton Price, *Handbook*, passim)

Unsurprisingly, the general pattern of total development indicated in earlier paragraphs remains intact, with initial decline and stagnation followed by rapid growth in the second half of the century. It should be noted though that the total number of banks in any year shown here is consistently higher than estimated in the existing literature. More interestingly, a stark difference between the City and West End banks does become apparent. In the West End bank numbers were pretty consistent, and only passed 20 in the late 1780s, in a second growth spurt that followed a noticeable pick up in the early 1770s. The major variable factor in the development of banking for most of the century was therefore the City banks, which across the century on average accounted for about 60% of all London banks in any given year. The first quarter of the century saw a marked decline in the number of City banks, with their numbers effectively halving by 1726. Some caution is required here, as it is possible that the names of City banks in this period have lost, as no formal lists of bankers exist between 1700 and 1725.<sup>140</sup> Instead one is dependent on fleeting glimpses: from Hilton Price's work it is possible to identify eight City banks that failed between 1720 and 1740, but for which no start date is known and therefore cannot be included in this dataset.

In an average year in the eighteenth century, one could expect 2.3% of banks to be created and 1.7% to fail. This of course masks the volatility of the underlying numbers, which can be seen in Figure 4. The first half of the century saw switches between periods of growth and periods of decline. In contrast after 1750, there was a generally consistent stream of additions, especially in the 1770s.

<sup>139</sup> Temin and Voth 'Banking as an emerging technology', p. 156.

<sup>140</sup> Hilton Price, *Handbook*, pp. 184-5.



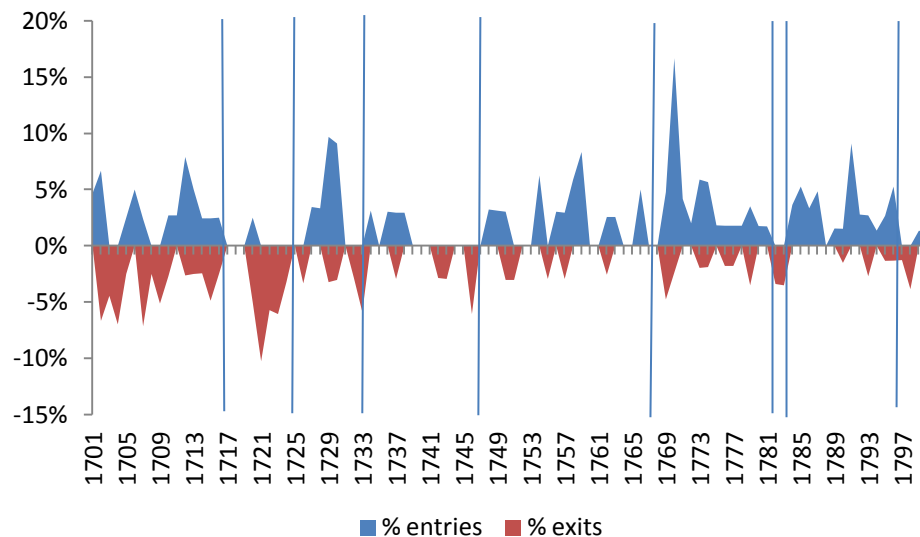


Figure 4: London bank entries and exits, 1700-1800 (Source: Hilton Price, *Handbook*, passim)

The overall pattern of bank development within London corresponds with the trajectory of London's broader economy over the century. Economic activity in London, as derived from construction levels, was fairly buoyant until the mid-1720s, but then largely stagnated until around 1760, with the 1740s seeing a particularly sharp contraction, a period when bank numbers also did not grow. Coal imports, beer production and foreign trade all indicate a similar trend, with sustained growth in beer production for example not re-appearing until the 1770s. This pattern was in direct contrast to developments in the provinces, where economic activity continued to expand through to the 1750s, and accelerated further thereafter. The reasons for this depression in London have not been fully explained, although population stagnation due to apparently high mortality rates is likely to have played a part.<sup>141</sup> Once economic growth did return after the Seven Years War, it maintained its pace, with only a small setback during the wars of the 1790s.<sup>142</sup> Again, the movements in bank numbers appear to match this broader economic trend.

The general economic weakness of the 1720s was further compounded in banking by the impact of the South Sea Bubble. The Bubble was England's first modern financial crisis and has been the subject of considerable interest and historical research, in the process achieving 'mythical status'.<sup>143</sup> The precise course of events is well known and it is not necessary to re-visit this matter here. What is relevant however is its impact upon

<sup>141</sup> Schwarz, *London during the age of industrialisation*, pp. 79-84. Schwarz argues that something of the 'great depression' of the eighteenth century can be gleaned from national income statistics, and it is probable that this can be almost entirely attributed to London. Although some of the outports were impacted, London was worse affected and took longer to recover as indicated by some the performance of proxy industries.

<sup>142</sup> Ibid., p. 85. The author is less clear on the timing of the divergence of provinces from London in terms of the trade. This may not have happened until after 1815, see *ibid.*, p. 89.

<sup>143</sup> Julian Hoppit, 'The Myths of South Sea Bubble', *Transactions of the Royal Historical Society* 12 (2002), pp. 141-65.

England's early bankers.<sup>144</sup> No precise analysis of this topic exists, perhaps partly due to some of the difficulties surrounding data that have already been alluded to. Most of the existing literature does allude to the difficulty experienced by bankers at this time. Malcolm Balen for example noted:

... banks with long lineages such as Atwill and Hammond, Long and Bland, and Nathaniel Bostock, were closing their doors. Hoare's was busy offloading stock in great quantities, and bankruptcy proceedings were being taken against two bankers who had once been worth £300,000.<sup>145</sup>

The Sword Blade Company, which had been closely associated with the South Sea Company, collapsed as did Mitford and Merten's, with liabilities of £170,000.<sup>146</sup> Carswell identified six banks that failed in the aftermath of the crisis.<sup>147</sup> These were numbers that were thought to be unusually high.<sup>148</sup> Exposure to the Bubble was twofold: some banks had direct exposure through investment in the actual stocks, although the significance of this was probably relatively limited, as Dickson suggests only £105,000 was subscribed by twelve banks in 1711.<sup>149</sup> Of more consequence was the general squeeze in liquidity that accompanied the collapse of the Bubble.<sup>150</sup> Although there had been a general financial squeeze in 1710, that in 1720 was more severe.<sup>151</sup> Some bankers struggled to shield themselves from the activity of their customers: George Middleton stopped payment in December 1720, undone by his actions on behalf of John Law, who had unsuccessfully speculated in the shares of the East India Company.<sup>152</sup> Martins bank survived the crisis, but had come under severe pressure.<sup>153</sup> It was this squeeze in liquidity then that caused problems for the London bankers and likely accounted for the failure of the above firms. The Bubble also possibly undermined confidence in banking for a number of years. At Hoare's banks customer deposits fell in the years following the Bubble, leading to a

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<sup>144</sup> For accounts of the Bubble, see Malcolm Balen, *A Very English Deceit* (London, 2003); Hoppit, 'Myths'; Peter M. Garber, *Famous First Bubbles: The Fundamentals of Early Manias* (Cambridge, MA, 2000) pp. 109-122; John Carswell, *The South Sea Bubble* (London, 1960); Gary Shea, 'Financial market analysis can go mad', *ECHR* 60:4 (2007) 742-65; Ron Harris 'The Bubble Act: its passage and its effects on business organisation', *Journal of Economic History* 54:3 (1994), pp. 610-627.

<sup>145</sup> Balen, *English Deceit*, p. 155.

<sup>146</sup> Hoppit, 'Myths', pp. 157-8.

<sup>147</sup> Carswell, *South Sea Bubble*, p. 197. These were Atwill and Hammond, Cox and Cleave, Long and Bland, Nathaniel Bostock, Mitford and Mertens, Daniel and Joseph Norcott.

<sup>148</sup> Joslin, 'London Private Bankers', p. 174.

<sup>149</sup> Dickson, *Financial Revolution*, p. 449. With astute timing it was also possible to profit from the Bubble, as did Hoare's, who made £28,000; see Carswell, *South Sea Bubble*, p. 197. Healey, Coutts, p. 49, shows that George Middleton had very limited investments in the stocks.

<sup>150</sup> Neal, *Financial Capitalism*, pp. 106-10; Hoppit, 'Myths', pp. 157-8.

<sup>151</sup> Hoppit, 'Financial crises', pp. 44, 48-9.

<sup>152</sup> This transaction is covered in Larry Neal, 'For God's Sake, Remitt me': the Adventures of George Middleton, John Law's London Goldsmith banker, 1712-1729', *Business and Economic History* 23.2 (1994), see pp. 55-7 for Middleton's failure. See also Healey, *Coutts*, pp. 49-52.

<sup>153</sup> Martin, *The Grasshopper*, p. 129.

reduction in profitability from the £40,000 achieved in 1720, to a figure in the region of £20,000 per annum.<sup>154</sup>

The Bubble also had other impacts on the banks that survived. Temin and Voth have written about the South Sea Bubble in terms of a learning event for Hoare's in developing this still nascent business.<sup>155</sup> A key point from this argument is that after the Bubble, the bank was run on a much more liquid basis, with the cash/assets ratio moving from about 20% pre-1720 to an average 34% over the period 1720-42.<sup>156</sup> However Temin and Voth did not provide any evidence that the response by Hoare's was common, or simply an isolated incident. Equally it should be noted that there were other influences that could drive this change, such as the bank's partners changing as first Richard died in 1719, and then 'Good Henry' in 1725.<sup>157</sup> The aforementioned George Middleton re-established himself after stopping payment and also focused more on liquidity, claiming that he 'learn[ed] so much experience as always for the future to be in a condition to meet any storm'. Upon re-opening his business, he aimed to meet most demands for cash at an hour's notice.<sup>158</sup> While there is therefore an argument that the South Sea Bubble was a positive learning experience for some bankers, this remains a question that requires further examination.

While the South Sea Bubble was clearly a major short-term shock, bank numbers did eventually recover. From the low point in 1726, the number of City banks grew on average by 1.7% per annum, compared to the 0.7% rate experienced by West End banks. The growth of City bank numbers was not evenly spread. Numbers recovered somewhat by 1730, but then effectively remained stagnant until the mid 1750s, after which point there was consistent growth until the French Revolutionary wars. The subsequent growth in the number of banks was achieved despite the number of conflicts that England was involved in during that period, which throughout the century tended to slow bank formations. Joslin maintains that 'in years of war, or during later years of war, when monetary conditions were difficult, the rate of increase was damped down, and new foundations merely balanced defections through bankruptcy'.<sup>159</sup>

Over the course of the century bank numbers recovered and by 1800 London had clearly developed into the country's banking centre. In 1797, the 79 London banks identified accounted for 17% of all banks in England and Wales.<sup>160</sup> This probably understates the significance of the London banks as they tended to be larger than their provincial counterparts: their share of banking assets should therefore have been even greater. Precise numbers to prove this point are probably not possible, but it is generally accepted that the average provincial bank had a capital of £10,000, whereas most London banks by the last quarter of the century appear to have had a capital of £20-30,000. Assuming that the provincial banks were not on average more leveraged, and arguing that the average

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<sup>154</sup> Hutchings, *Messrs Hoare's*, p. 37. The figure for 1720 was probably inflated through the extraordinary profits related to the Bubble.

<sup>155</sup> Temin and Voth, 'Banking as an emerging technology', pp. 152-4, 165.

<sup>156</sup> *Ibid.*, p. 160.

<sup>157</sup> Hutchings, *Messrs Hoare's*, pp. 30-1, 46.

<sup>158</sup> Healey, *Coutts & Co*, pp. 49-53.

<sup>159</sup> Joslin, 'London private bankers', p. 173.

<sup>160</sup> See chapter 7 for provincial banking.

London bank was 2.5 times the size of its provincial counterpart in terms of assets, then London banks accounted for about 25% of the total banking assets of the country.

#### IV

While the individual aspects that made the City have been considered largely in isolation so far, it is important to bear in mind that in many cases the relationship was symbiotic and there were numerous interconnections between the various elements. The links between deposit banking and the issuers of government debt have already been touched upon and other important interconnections between the banks and other parts of the City will become clearer in subsequent chapters. For now, it will suffice to use an example from the 1790s to illustrate how different functions were integrated and that there was a shared interest between parts of this group. The outbreak of the French Revolutionary Wars in 1793 led to a significant degree of financial upheaval. One of the most disruptive events was the occupation of Amsterdam by French forces in early 1795. The commerce and financial activity between London and this city were still significant.<sup>161</sup> The implications of the occupation therefore required a coordinated response. The actions of the British government in response to the occupation required enough guidance to lead to the formation of committee to represent the interest of the merchants and bankers trading with Holland upon the occupation of Amsterdam. Sir Francis Baring was the committee's chairman. At a 'a very numerous meeting of Merchants, Bankers, Remitters & Others connected with Holland' on Saturday 24 January 1795, it was resolved unanimously that the chairman should remonstrate with the Postmaster general for the return of correspondence sent on the 13<sup>th</sup>, 16<sup>th</sup> and 20<sup>th</sup> of January. He should also 'request permission to pay such bills or other engagements they [the merchants and banker] may have contracted for their correspondents in Holland'. This was all a reflection of the fact that they believed that actions of the government had made it illegal for them to carry out these obligations.<sup>162</sup> This demonstrates the close connection of trade and finance that had been achieved by this stage and the importance these issues created at a national level. The elevation of Sir Francis Baring to the head of the committee might serve to indicate his position as a genuine merchant banker and his ability therefore to meet the needs of both the banking and financial community.

Serving with Francis Baring on this committee were members of the City's cosmopolitan and international elite: Sir Joshua Vanneck, Sir Charles Pole, Mr Harman, Mr G Thornton and Mr Thellusson. The importance of Vanneck has already been discussed. The Thellussons were another substantial merchant banking family, this time of French Huguenot extraction. It is not clear from the document which Thellusson was being referred to, however Peter Thellusson died in 1797, so it could plausibly be him. He arrived in England in 1761, in which year he was also naturalised. His brother George had been based in Paris, creating the famous bank there with Jacques Necker. This contact, together with the help of Phillip Naville, a London based merchant from Geneva, allowed Thellusson to create a merchant banking firm in London. During the revolutionary wars, as chief

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<sup>161</sup> Neal, *Financial Capitalism*, chapters 7 and 10.

<sup>162</sup> Baring, Northbrook papers, NP1A 6.1.2.

correspondent for the Paris bank of Greffulhe and Montz, he received substantial funds from French émigrés.<sup>163</sup>

Equally important in terms of the discussion of the wider significance of the City are some of the notes on amendments to be made to the bill that was proposed to solve this issue. One amendment suggests that ‘the correspondence between Holland, Spain and Portugal has passed through London for a long while’. This passing of correspondence through London houses suggests the control that London had on the flow of finance and goods between the Iberian Peninsula and the Low Countries.<sup>164</sup> It also relates that the houses had many different clerks writing their letters, and that the volume of the remittance business in particular was so large that some houses had resorted to the use of stamps or printed letters for their communication on some topics, such as in relation to dividends.<sup>165</sup> All of this is indicative of the growing relative and absolute importance of London as a financial centre in Europe, which this chapter has sought to emphasise.

Throughout the eighteenth century, London and Amsterdam were the key European financial centres, with the balance of power between the two shifting in favour of London as the century progressed. This was partly possible because Amsterdam was struggling under pressures within its domestic economy. London clearly benefited from the creation of a large, liquid national debt, which allowed further specialisation, for example in debt issuance and broking. However despite its relative significance within the country declining, London’s emergence was also driven by the strength of its wider economy, particularly its commercial interest. It was this dual strength that meant that by the end of the eighteenth century the City of London had developed its own money market, encompassing ‘hundreds’ of merchants, bankers and brokers involved in financial transactions.<sup>166</sup>

Clearly the development of the City was helped by its position as the key financier of the English state and the significant expansion of the government’s borrowing requirements over the course of the century. It is difficult to overstate the centrality of the English capital markets within London. However focusing too closely on this part of London’s financial economy can lead to a neglect of other important aspects of its emergence, for London appears to have been undergoing a significant process of financialisation in this period. It can be argued that work such as that carried out by Neal and Carlos underestimates the significance of the bankers and merchants as financial actors in London in this period. While the rate of growth of London’s banking sector in this century was uneven, it was on a clear long-term uptrend, especially with regards to the City banks which appear to have been the more dynamic. It was also becoming more closely integrated into the wider financial world of London. Having considered this development in overview, the following chapters will consider aspects of London’s banks in greater detail.

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<sup>163</sup> E. I. Carlyle, ‘Thellusson, Peter (1737–1797)’, rev. François Crouzet, *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Sept 2010. In a similar experience to the Vannecks, Thellusson’s eldest son was raised to the Irish peerage.

<sup>164</sup> Baring, Northbrook Papers, NP1A 6.1.15.

<sup>165</sup> Baring, Northbrook Papers, NP1A 6.1.15.

<sup>166</sup> Cope, *Walter Boyd*, p. 37.

### Chapter 3: Bankers, merchant bankers and finance in the eighteenth century City

It was shown in the previous chapter that the dynamic part of the London banking sector was to be found in the City. This set of banks will therefore stand at the centre of the next 3 chapters. Despite their known existence and the prominence of some of the individual firms, City banks have however generally not been well studied. Joslin's famous article 'London Private Bankers' devotes less than half of its content to city banks.<sup>1</sup> A similarly brief overview of the subject can be found in James' article on English banking, although he does succeed better at encapsulating their potential significance, for example noting that they accounted for the vast majority of London's bankers.<sup>2</sup> I.S. Black's and Pressnell's work both provide important information on the agency system that formed a key component of some City banks' business. However their interest in this link was very much from the perspective of the provincial banks, and they therefore do not fully consider the significance of this type of business to the City banks.<sup>3</sup> Finally some commercial historians, most notably J.M. Price, have shown an interest in the activities of the City banks in providing financial backing to merchants.<sup>4</sup> The limited analysis that has been carried out on this group of bankers means that judgements on this group of banks are more tentative than those on other parts of the English banking system. In the first instance, it will seek to provide a better understanding of the eighteenth century developments in the number and composition of City banks. It will then proceed to examine their place within London's wider financial community and how together they were able to contribute to the development and strengthening of London's money market.

In chapter 2, a discussion of the overall growth in the number of City banks over the course of the century was provided.<sup>5</sup> In total, there were 104 identifiable City banks between 1700 and 1800, or about 66% of all known banks in London over the century. This is a conservative number, as it is possible that others were not identified through the various lists, while in the earlier part of the century, some goldsmiths may have had banking businesses that are not captured in this analysis. It is nonetheless clear that City banks were normally more numerous than those of the West End, although there was some variation in their share of the total over time. On average about 60% of London banks were City banks, but from 1760 to 1794, this proportion was noticeably higher at 67%. Some of these banks had a continuous existence throughout the century, while others only appear to have survived for a handful of years.

While Joslin provides very little depth of information on the actual internal structure of most of these City banks, he does provide some useful information on the background of

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<sup>1</sup> Joslin, 'London private bankers', p. 179-85.

<sup>2</sup> James, 'English Banking and Payments before 1826', pp. 130-35.

<sup>3</sup> Pressnell, *Country banking*, Chapter 4, especially pp. 75-84, 105-16.

<sup>4</sup> Price, *Capital and Credit*, chapter 5. See also Hancock, *Citizens of the World*, pp. 250-52 on the financing of merchant businesses.

<sup>5</sup> See chapter 2, pp. 68-70. The data used in this chapter is based on the same database derived from Hilton Price's *Handbook*.

their partners.<sup>6</sup> Based on this article and Hilton Price's data, it is possible to identify three main groups within the City banks, according to their origins, age and function. The first group originated from the goldsmiths of the Restoration, much like the West End banks. However they evolved into banks more closely related to trade, rather than focusing on a gentry/aristocratic clientele. Examples of this type of bank include Martin's, Barclays (originally Freame and Gould), Bland, Barnett & Hoare, Hankey's and Merle, Son, & Co, all of which can trace their origins to the seventeenth century.<sup>7</sup> In terms of numbers, these goldsmith-derived City banks accounted for about 38% of the 104 City banks identified. Practically all of the City banks in existence before 1700 derived from goldsmith businesses (95% of the total). Thereafter the importance of this profession as a source of bankers clearly lessened (Figure 5). Furthermore, it can be argued that many of the banks within this group lost much of their goldsmith heritage over time, as they brought in external partners from other trades to complement their existing resources over the course of the century. For example, Fraeme and Gould, who had both been goldsmiths, brought in the merchant David Barclay as a partner in 1730s. Eventually the Barclay family came to dominate the bank.<sup>8</sup>

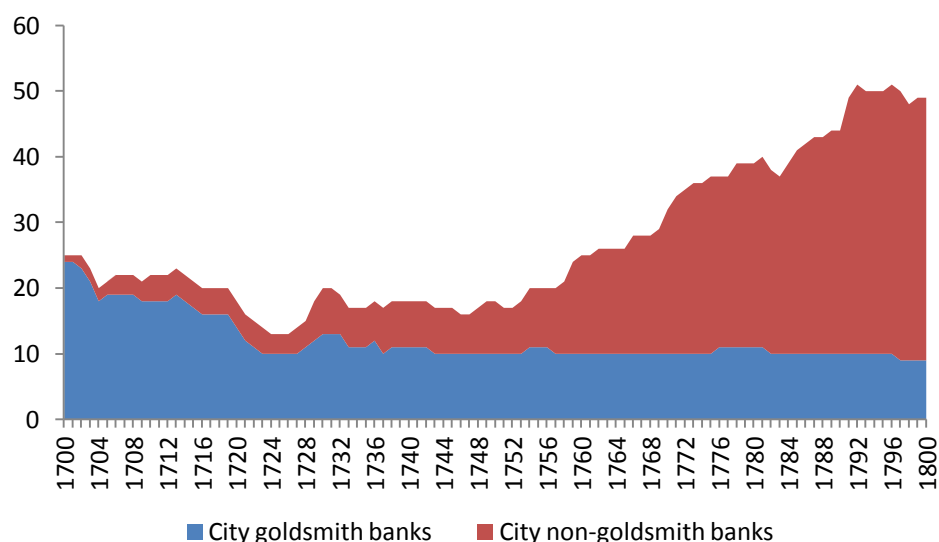


Figure 5: City banks, 1700-1800 (Source: Hilton Price, *Handbook*, passim)

The second group of City banks is again defined by age, but also importantly by the absence of a goldsmith connection. The decreasing significance of the goldsmith profession became particularly pronounced in the third quarter of the eighteenth century, as London witnessed what has been described as a miniature revolution in banking, coinciding with the first growth of provincial banks.<sup>9</sup> The expansion of the number of banks was driven in part by secessions from existing businesses, as clerks or partners left established banks to

<sup>6</sup> Joslin, 'London private bankers', p. 179-81. The only bank that he provides any detail on is Martin's bank – the partnership was Martin, Surman & Stone from 1732 to 1744 (see Hilton Price, *Handbook*, p. 111). The information he appears to be based upon Martin's *Grasshopper in Lombard Street*.

<sup>7</sup> For Bland, Barnett & Hoare, see Hilton Price, *Handbook of London bankers*, pp. 13-4 and Sayers, *Lloyds Bank*, pp. 14-7; for Barclays and Martins see below.

<sup>8</sup> For the early development of Barclays, see below, pp. 103-8.

<sup>9</sup> Price, *Capital and Credit*, pp. 69-70, see also below chapter 7 for provincial banks.

set out in their own enterprises. Boldero, Carter & Co, a firm dating to 1738, split into two separate banks in 1770, with a Boldero present in both new banks (Boldero, Kendell & Co and Boldero, Carter, Barnston, Snaith & Co). Another important example included Vere, Glyn and Hallifax.<sup>10</sup> Joseph Vere learnt the business as an apprentice at Martin's bank, continuing there as a clerk before becoming a partner in his uncle's firm, Glegg & Vere. Upon the two elder partners' death, this firm became Vere & Asgill, which it remained until 1753, when the partners separated, Vere going into partnership with Sir Richard Glyn and Thomas Hallifax.<sup>11</sup> Vere's association with this firm did not last long: Joseph Vere died in 1766, bequeathing his fortune to his cousin Charles. He appears to have exited the business and in 1770 invested in a new bank led by Sir Charles Raymond.<sup>12</sup> Unfortunately it is not clear precisely why these separations occurred. Rarely did private banks make use of all six partners permitted to them, with most only having three or four. So secessions were unlikely to have been the result of the legal restrictions on a partnership size. Instead it is likely that for more junior partners there may have been a desire to gain a greater participation or control in a bank, where the established partners desired to avoid a reduction in their interest. Gaining access to an established banking house was clearly difficult without a family connection. Robert Ellison served as an apprentice with the banker Godhard Hagen in London, but was initially refused admittance as a partner. The need for greater capital eventually changed Hagen's mind, so that Ellison gained a 25% share for £5,000 in 1763. This partnership was short-lived, as Ellison left in 1766, regarding Hagen's business as excessively risky.<sup>13</sup> Similarly it would appear that Ebenezer Blackwell's attempts to move from head clerk to junior partner in Martin's bank in 1746 was not straightforward, the existing partner Mr Surman appearing to be somewhat reluctant to agree to this promotion.<sup>14</sup> This was then a small, fluid business community, as is illustrated by the genealogies in Figure 6.

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<sup>10</sup> Joslin, 'London Private Bankers', pp. 180-1. More detail on the links between banks can be found in the individual entries within Hilton Price, *Handbook of London Bankers*, p. 17 for Boldero & Co.

<sup>11</sup> Anon., *Williams Deacon's 1771-1970*, pp. 27-31. Thomas Hallifax was the son of a Barnsley grocer and had also previously been a senior clerk at Martin's. Asgill went into partnership with John Wickenden, junior partner in the bank he was leaving, and John Nightingale, a clerk, in a bank which failed in 1796 according to Hilton Price. Wickenden left that bank in 1775 to establish another new bank, Kensington & Co, which failed in 1812.

<sup>12</sup> *Ibid.*, p. 31-2. This bank in due course became Williams Deacon's bank.

<sup>13</sup> Edward Hughes, *North Country Life in the Eighteenth Century, The North-East, 1700-1750* (Oxford, 1952), p. 104-112. Ellison was the second son of a gentry family from the North East of England. He had been educated at Eton, and had to spend three months at an academy before his apprenticeship to learn book-keeping and other technical skills of the counting house, which were not taught at Eton. Hagen's bank does not appear in Hilton Price's *Handbook*.

<sup>14</sup> George Chandler, *Four centuries of banking; the Grasshopper and the Liver Bird*, vol. 1 (London, 1964), pp. 127-8. Blackwell did however have the support of the senior partner, Thomas Martin, which ultimately probably ensured his attempt would be successful.



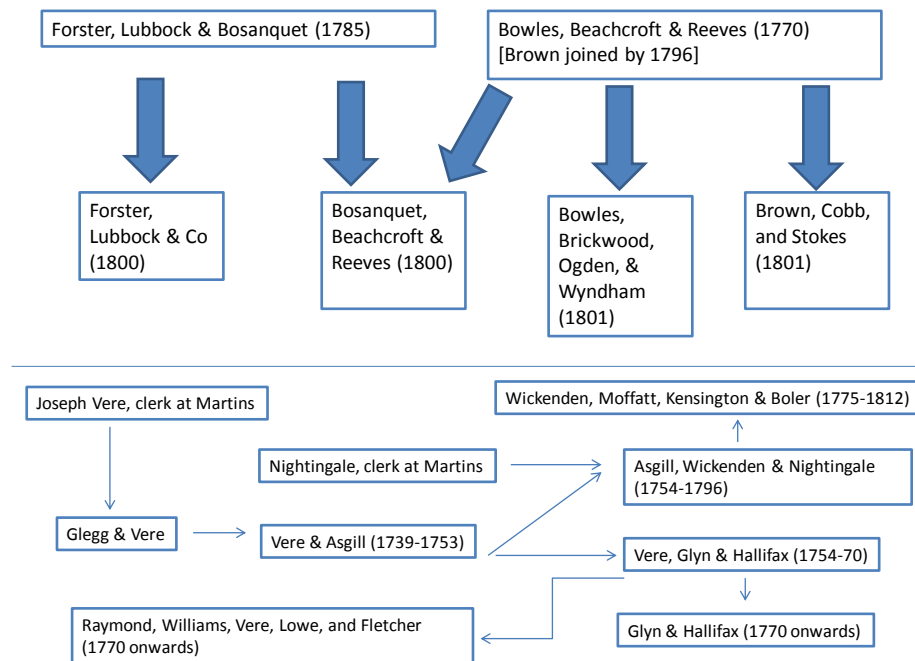


Figure 6: 'Genealogy' of some of the early City Banks (Source: see text)

However the expansion in the number of banks was not just driven by secessions from existing businesses. Where clerks or partners were leaving existing firms, they were often combining with merchants or manufactures from the wider London community.<sup>15</sup> Many of the merchants who decided to join or form banks did so after 1770 and from the perspective of the banks, trader and merchant involvement was significant. The example of Sir Richard Glyn has already been noted. Other important merchant families that entered banks included Herries, Hanbury, Magens, Thornton and Sir George Amyand, who maintained a share in a merchant house trading with Hamburg.<sup>16</sup> Henry Thornton joined Marlar, Lascelles, Pell & Down in 1784, having previously been apprenticed to a merchant relative, where he had gained experience in carrying out bills to be accepted and working in a counting house. He had also worked for his father, who speculated in commodities and contracted for loans in the American War of Independence. Similarly Mason, Currie & Co. combined the activities of two partners of a banking house that failed in the crisis of 1772 with William Currie, who was a distiller.<sup>17</sup> Other banks formed in this period had no partners with prior banking experience. Prescott, Grote & Co was formed in January 1766 by George Prescott, Andreas Grote, William Culverden and John Hollingworth. Prescott, the son of a lead merchant from an old-established family from Cheshire, had served an apprenticeship in Leghorn. His second wife was the daughter of Jacob Elton, banker of Bristol. Grote was a merchant of Dutch extraction who came to England from Bremen in 1731. Culverden was his brother-in-law.<sup>18</sup>

<sup>15</sup> Joslin, 'London Private Bankers', p. 181.

<sup>16</sup> For Amyand, see Gauci, *Emporium*, pp. 162-63.

<sup>17</sup> Joslin, 'London Private Bankers', pp. 181-83.

<sup>18</sup> Anon, 'Prescott's Bank: the First 125 Years', *National Provincial Bank Review* 75 (1966-68), p. 15. Little is known about the careers of Culverden or Hollingworth.

It was largely from this second group of City banks that the third important group of City banks emerged in the 1780s, namely those that developed into substantial agency houses for country banks. This group included banks consisting solely of partners from London, but many of these partnerships also contained partners of provincial banks that were looking to establish their own businesses in London. By the end of the century, some of this last group were setting up banks in London solely to improve their own access to the London money market: these became what Pressnell described as the 'pig-on-pork' banks of the 1790s, which he viewed as being of a more dubious character.<sup>19</sup> More charitably, one might argue that striving for better access to the money markets was actually a reasonable objective. In this instance one might suggest that they represented an early form of branch banking, designed to overcome one of the more obvious shortcomings of the unitary banking model. This third group is covered in greater detail later.<sup>20</sup>

# I

This overview of the development of City banks in the eighteenth century emphasises the importance of the merchant community in their expansion. In contrast to the banks in the West End, where we have already seen that the original firms of goldsmith origin continued to feature prominently, City banking saw a substantial shift and became dominated by merchant interests. To examine the reason for this transition of the City banks, it is useful to consider the changing position of the merchant in London's economic life. The prominence of the merchant in London is well known and merchant figures dominated much of the City's life. Stanley Chapman emphasises the importance of the eighteenth century for the 'emergence of merchants as an economic and social elite, the major role played by migrants from the Continent and the dominance of London in the commerce of Britain'.<sup>21</sup> Furthermore the finance of London's trade was becoming a more important feature within the London economy and some merchants acquired considerable financial expertise.<sup>22</sup> Indeed the requirements of trade demanded knowledge of credit, and even prior to 1660 merchants had been lenders to both individuals and governments. However at this point merchants did not tend to specialise in finance, in contrast to the goldsmith bankers of the period. The eighteenth century has therefore been acknowledged as significant to the initial emergence of 'an elite group of merchant-financiers, as well as the first merchant-bankers'.<sup>23</sup> To this one might also add their role as nascent commercial bankers.

The link between merchant and finance was in many ways a natural one. Merchants or wholesalers were primarily interested in their firms' extension of credit and in the management of their balance sheets, which were dominated by accounts receivable and debts owed.<sup>24</sup> From this perspective they resembled financial firms rather than manufacturers. Chapman is also convinced that merchants were becoming increasingly

<sup>19</sup> Joslin, 'London Private Bankers', p. 181, 183-4; Pressnell, *Country Banking*, pp. 105-16.

<sup>20</sup> See below, pp. 108-19.

<sup>21</sup> Chapman, *Merchant Enterprise*, p. 21.

<sup>22</sup> Michie, *London as a Financial Centre*, pp. xxxiv-xxxv.

<sup>23</sup> Gauci, *Emporium*, p. 141.

<sup>24</sup> Price, 'What Did Merchants Do?', pp. 278-79.

involved in financial activities, citing the example of a number of West Country cloth industry merchants who were simultaneously operating as export merchants and bankers.<sup>25</sup> By the 1770s, one of the key similarities between the merchant and the banker was that they were both significant mobilisers of capital. Both were among the most capital intensive businesses in Britain at the time, in terms of the capital required to enter the trade.<sup>26</sup>

The path by which merchants gained their knowledge is not always readily apparent from the surviving records. One instance where it is possible is in the case of Anthony Gibbs & Sons. This firm's development into a merchant bank is normally considered to have occurred in the nineteenth century. Yet Anthony Gibbs was operating as a merchant in the eighteenth century and from surviving correspondence in the Guildhall Library it is possible to gain an idea of how the skill set that would allow him to be successful as a merchant and later as a merchant banker was established. In so doing it is also possible to establish the wider importance of merchants to the banking world of London and abroad at the time. It is instructive about the transitions that were occurring within English finance during this period.

The Gibbs family originated from the South West of England, featuring prominently in the cities of Exeter and Bristol. This family illustrates the strong links that existed between finance and merchanting. Anthony's brother George became a partner in the Bristol merchant firm of Munckley, Gibbs & Richards in 1789. The connection to Munckley came through George and Anthony's mother Anne Gibbs, who was Samuel Munckley's aunt and George had initially been apprenticed to Samuel Munckley's merchant business. Munckley also had connections to Bristol's banks, as he was a partner in the Harford Bank. In time George came to act as his brother Anthony's banker and is said to have provided a counterbalance to Anthony's sometimes rash temperament.<sup>27</sup> The Gibbs family itself also had a broad range of merchant interests. Two half cousins became merchants in Italy, most notably Abraham Gibbs, who established the firm of Gibbs & Co in Palermo and Naples, which became 'banker to the Court of Naples, agent for Lord Nelson in the management of his Sicilian estates, and Consul at Palermo for the United States of America'.<sup>28</sup> Anthony himself was apprenticed to Mr Brook, a woollen exporter in Exeter, shipping to Spain and other Mediterranean countries. In 1778 he set himself up in that line of business, in partnership with Samuel Banfill. He was willing to work hard, which letters to his future wife Dorothea Hucks in 1783 regularly attest to: 'I was obliged to be at the counting house the whole day & til one o'clock this morning, & I am afraid that this work must continue a full fortnight longer'.<sup>29</sup> At this point it would appear that Banfill was in Spain, and Gibbs was running the business in England and he did not envisage that his situation would ease until

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<sup>25</sup> Chapman, *Merchant Enterprise*, p. 60. The families included Barings, Milfords and Kennaways.

<sup>26</sup> *Ibid.*, p. 26.

<sup>27</sup> Wilfred Maude, *Anthony Gibbs & Sons Limited, Merchants and Bankers, A brief Record of Anthony Gibbs & Sons and its Associated Houses' business during 150 years* (London, 1958), p. 9; John Arthur Gibbs, *The History of Antony and Dorothea Gibbs & of the early years of Antony Gibbs and Sons* (London, 1922), pp. 12-13.

<sup>28</sup> Gibbs, *History of Antony and Dorothea Gibbs*, p. 16.

<sup>29</sup> GLL, Gibbs & Sons, MS 11021, *Letters and other items collected and arranged by Henry Hucks Gibbs, 1728-1905*, file 2, ff. 36-7, 41-2.

Banfill returned in nine months. However he also noted that 'the business goes well'. The firm appears to have been largely financed by Gibbs' father at this point, as he explained to Dorothea that:

a great deal of money we have in the business is borrowed by my father and in case any accident should happen to him, would in all probability be called in. This would create a necessity of us lessening the business in such a degree as very considerably to diminish the profits, it is therefore certainly very much to be wished, before my expenses are increased [through marriage], that the capital in the business should be so far increased as to provide against any such misfortunes as I have mentioned.<sup>30</sup>

This fear was unjustified at the time. However Anthony Gibbs was eventually bankrupted in 1789, his failure attributed to overtrading.<sup>31</sup> Anthony Gibbs' bankruptcy led him to spend much of the 1790s abroad in the Iberian Peninsula, where he had initially traded when he set out as a merchant in Exeter. He acted as an agent for a number of British and European merchant firms. He moved to Madrid as an 'Agent for British Manufacturers' and also became a partner in the Malaga trading firm of Juan Pomar, Gibbs y Cia, which in 1797 moved to Lisbon and in 1802 to Cadiz under the pressure of war. He is said to have been a man of talent and great integrity who could inspire loyalty and confidence amongst his Spanish and English connections, to the extent that many Spanish families supposedly deposited money and securities with him, effectively acting as a banker there.<sup>32</sup> The correspondence highlights the nature of this merchant business, and the large number of financial transactions that a commission agent had to deal with.<sup>33</sup> To carry out the business successfully required strong linguistic skills (letters are in English, Spanish and French) and an extensive network of contacts. The majority of the letters received by Gibbs appear to have come from Schmiedeberg (in Saxony, near Dresden), Cadiz, Seville and Bristol. Some of this correspondence provides simple instructions to Gibbs regarding goods to dispatch, as can be seen in the letters from Charles Harris in Bristol, requesting amongst other things oil and Alicante cork.<sup>34</sup> While the French wars were not universally damaging to British commerce in the region, the Gibbs papers are indicative of the difficulties and risks of trading in this period of hostilities.<sup>35</sup>

Much of Gibbs' time was spent trying to arrange recovery of debts and payment for goods. It is these transactions that are of particular interest in the context of this study. In a letter in September 1796, Gibbs appears to be advising Diescher on the likelihood of recovering money due to him by selling a debt to Jacques Courant. He indicated that if Diescher

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<sup>30</sup> Ibid, ff. 71-8.

<sup>31</sup> Maude, *Anthony Gibbs & Sons*, p. 11; Gibbs, *History of Antony and Dorothea Gibbs*, pp. 19-22 and 49-53.

<sup>32</sup> Maude, *Anthony Gibbs & Sons*, pp. 12-3.

<sup>33</sup> GLL, Gibbs & Sons, MS 19862/1, *Letters to Anthony Gibbs, relating primarily to business interests prior to 1808 (1795-1801)*, passim.

<sup>34</sup> Ibid., ff. 135-47.

<sup>35</sup> For an assessment of the impact of the French wars on British trade in the Mediterranean, see Katerina Galani, 'The lever of growth: French Economic Warfare and the British response at sea', paper presented at the Economic History Society conference (2012), pp. 107-11.

accepted payment in goods by one Jacques Courant, he might be likely to recover 60% of his initial debt; if he accepted payment in cash he would get as little as 50%.<sup>36</sup> Other letters give an indication of the trading network in this trade: one letter shows that a Mr d'Altonas had remitted £450 to George Gibbs in Bristol, which Anthony Gibbs was supposed to put to the account of Diescher (who was based in Dresden).<sup>37</sup>

Being able to form a reliable impression of the credibility of other houses was an essential skill for carrying out his role successfully. Gibbs' work involved assessing the credit worthiness and general desirability of trading with certain houses in Spain and Portugal. In one letter, Diescher described the house of Messrs Guillot in Lisbon as essentially solid, but Diescher was not keen to work with them on the basis that they were a difficult firm to work with, being prone to quarrelling for no apparent reason. In addition their charges of 2-3% were also regarded as expensive. On that basis there were better houses to conduct business with in Lisbon.<sup>38</sup> In another example, Diescher decided to stop doing business with the house of Martin & Co in Cadiz, on the basis that they were quarrelsome, late in payment and generally not solid. Instead they would start using the firm of Altonas in that city.<sup>39</sup> The skills that Antony Gibbs acquired were undoubtedly important when he eventually came to be established as a merchant banker in London. He had developed a good understanding of local connections and their credit worthiness, and the finance of trade. He was entrusted by his partners with the collection of their debts and the administration of their finances, especially for the firms of Dolz & Co and Diescher.

Despite an overlap between the skills of a banker and a merchant, some commercial historians have questioned the likelihood of movement between merchanting and banking. The financial business of merchants was distinct from that of a note-issuing banker in that merchants did not operate current accounts as such, but 'carried accounts for merchants and others whose foreign business they financed, for shipping people whose insurance they placed at Lloyds and for foreign houses needing a London correspondent'.<sup>40</sup> Gauci argues that it was rare for merchants to move into banking outright, with most maintaining a focus on their trading businesses. One of the few merchants he identified as having moved into banking was Sir George Amyand, who set up a banking partnership with Roger Staples and George Mercer in Cornhill in 1760.<sup>41</sup> Amyand's transition was a successful one, the bank becoming Dimsdale & Co, which merged with Prescott's in 1891.<sup>42</sup> The analysis provided above however suggests that Gauci probably underestimated the degree of merchant participation in banking, perhaps because his analysis was principally focused on the earlier part of the century. He is likely to be on firmer ground in arguing that merchants' financial specialism hardened over the course of the century as they tended to focus on international or government finance, or acted as an agent for a country bank.

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<sup>36</sup> GLL, Gibbs & Sons, MS 19862/1, ff. 28-31.

<sup>37</sup> Ibid., ff. 18-21.

<sup>38</sup> Ibid., ff. 13-4.

<sup>39</sup> Ibid., ff. 22-3.

<sup>40</sup> Cope, *Walter Boyd*, p.1.

<sup>41</sup> Gauci, *Emporium*, p. 162.

<sup>42</sup> Hilton Price, *Handbook of London Bankers*, pp. 52-3. Prescott's in turn amalgamated with the Union of London and Smiths bank in 1903.

The analysis presented previously showing strong merchant involvement in commercial banking raises questions about this line of argument. Many merchants did move towards areas more traditionally associated with merchant banking, and it has rightly been a topic of interest to historians.<sup>43</sup> However in doing so, they have arguably downplayed the connection that existed with commercial banking. This closer integration of the merchant and banking matters through merchant participation in banking partnerships speaks of a change in the banks' function from the previous goldsmith era. The banks that had emerged in the seventeenth century appear to have facilitated two key activities. They acted as a place where merchants could reliably store their money and also provided notes that helped merchants conduct their businesses. A principal outlet for the accumulated deposits was through lending to the government. However these activities probably declined in relative importance over the eighteenth century. The stop of the exchequer displayed the risks of using their deposits to lend extensively to the government, while their note issues were ultimately supplanted by those of the Bank of England. Instead these banks became more aligned with the commercial activities of the City of which they formed a part.

## II

Alongside the eighteenth century increase in the overall number and a change in the character of the City banks, the City was also seeing a gradual deepening of the interconnection both between the individual banks and with other parts of its financial system. Much of the history written about banking in its early stages in London emphasises the diversity of the institutions and the segregation of different types of banks, especially 'West End' and 'City' banks. While this is to a certain extent unavoidable, it is important that it should not obscure the equally important accompanying developments in the clearing system and the discount market that ultimately meant that banks were increasingly integrated by the third quarter of the eighteenth century. This is not to argue against distinct functions and specialisations, but to look at how banks interacted with each other. Nor should it highlight just the interconnections amongst banks, as the links with other parts of the financial system also increased. The growth of the banking system for example allowed merchants to become more ambitious. There was a growing interdependence with 'normal' banks, which could provide merchants with capital, and a discounting facility (in return for a fee/interest).<sup>44</sup> It is to this deeper integration of banks and financial markets within London that this chapter now turns.

The most obvious way to search for inter-connections between banks is through direct lending between financial institutions. Some of the institutional histories hint that temporary assistance in the form of such direct lending did take place. For example it is known that Smith, Payne & Co lent money to both Currie & Co and Sir Charles Price & Co, at a time when both were potentially vulnerable.<sup>45</sup> Evidence of such direct lending between banks is fleeting and it is difficult to form any indication of the extent to which such lending took place, however the examples are sufficiently frequent to suggest it was not an

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<sup>43</sup> Chapman, *Merchant Banking*, pp. 9-15, 41-3.

<sup>44</sup> *Ibid.*, p. 28.

<sup>45</sup> Leighton Boyce, *Smiths the Bankers*, p. 83.

uncommon practice. More long-standing bi-lateral relationships were established between some City banks and West End firms. In some ways this relationship was akin to the arrangement that existed between country bankers and City bankers. That West End banks had mismatches in their asset and liabilities and thus had occasional surplus funds, or needed access to short-term lending, is not surprising. City banks appear to have eventually provided a means of addressing these mismatches. A large number of payments between the banks of Cocks, Biddulph & Co in the West End and Martin's bank in the City around 1760 have led to the suggestion that some sort of connection was in place between these two banks.<sup>46</sup> A more concrete example of such a relationship can be found when Drummond's in the 1770s established what would prove to be a longstanding relationship with Smith, Payne & Smith. The move implies that Drummond's could not internally employ the resources at their disposal in a remunerative fashion.<sup>47</sup> From the Drummond's ledgers, Smiths' Bank first appears as a separate account in April 1773, and by the end of the month the bank appears to have deposited over £7,600 with the Smiths'. Year end balances indicate that Drummond's had about £5,000 on deposit with Smiths' at this stage in 1773, 1775 and 1785. By 1795, this balance had increased substantially, with the opening balance showing Drummond's to have had £26,043 on deposit with Smiths', which did fall to £11,356 by the end of that year. In 1797, the opening balance was over £15,000, which fell by about £3,000 across the course of the year. The turnover through this account was relatively large: from April to December 1773, total deposits from Smiths' amounted to over £39,000, which rose to £73,050 in 1775. In 1785 this value was once again in the region of £50,000, with the value of transactions at a similar level in 1795, then falling to £37,000 by 1797. Smiths' deposits with Drummond's are dominated by large, irregular payments, whereas the flows the other way are much more numerous, but for a smaller value.<sup>48</sup> The bank of Smith, Payne & Smith at times also borrowed from Child's bank, an example being a £50,000 loan in 1792 for 6 months at 4.5% interest on security of £60,000 worth of 3% Consols. While this transaction was not unique, it does seem that the relationship was not as strong as that which Smiths' had established with Drummond's.<sup>49</sup>

Aside from such bi-lateral relationships between private bankers, it might be thought that the position of the Bank of England could have been an opportunity for facilitating inter-bank relationships and transactions. From the existing literature it appears however that private banks had limited connections to the Bank of England in this period. Although it was possible for private banks to open drawing accounts with the Bank from its inception, Clapham's analysis of the Bank of England shows that this was a facility that was initially rarely utilised. Indeed he demonstrates that, even by 1774, the number of private bankers with direct access to the Bank was but a small minority of the total and that these were generally City firms.<sup>50</sup> Clapham argues that

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<sup>46</sup> Chandler, *Four Centuries of Banking*, pp. 158-64.

<sup>47</sup> The existence of this relationship is mentioned in Leighton Boyce, pp. 121-22.

<sup>48</sup> RBSGA, DR/427/67, f. 1292 (1773), DR/427/71 (1775), DR/427/107 (1785), DR/427/147, parts 1 and 2 (1795), DR/147/155 (1797).

<sup>49</sup> RBSGA, CH/203/6, f. 1.

<sup>50</sup> Clapham, 'Private Business of the Bank of England', p. 83.

by 1785 a radical change in its [the Bank of England] position had occurred: it was easily the largest single discounter in the City, whereas some forty years earlier its bill portfolio may easily have been smaller than those of its private competitors.<sup>51</sup>

Price's analysis of the Bank's discounting activity suggests a similar transformation occurred after 1756, with discounts increasing sixfold between 1748 and 1756. By 1782 it was discounting 10,000 or so bills per month. He tentatively attributes this to 'some liberalization in discount criteria and a corresponding greater eagerness among London and provincial and perhaps foreign business men to take advantage of London discount facilities both at the Bank of England and among private bankers'.<sup>52</sup>

The greater involvement of the Bank of England as a the discounter in general also appears to have led to greater integration between private bankers and the Bank over the last two decades of the century. While only a small minority of bankers maintained accounts at the Bank of England in 1774, by 1794 about half of London's bankers appear to have been account holders at the Bank. Of the names suggested by Clapham, it would appear that the more commercially minded banks utilised this service, including Barclays, Thornton's, Goslings, Smith Payne & Smith's and Herries. By contrast absentees included Coutts', Child's and Hoare's.<sup>53</sup> Glyn's opened its account with the Bank in 1799, with a deposit of £30,000.<sup>54</sup> However while London bankers do appear to have made greater use of the Bank, it is important to remember that they were only a small subset of the Bank's overall operations. Thus of £6.6 million of discounted bills in January 1800, only £396,000 was attributable to bankers (i.e. about 6% of the total). Direct discounting on behalf of merchants therefore clearly provided the bulk of the Bank's business in this regard.<sup>55</sup> Indeed the core of the Bank's discount activity was built around merchants, especially those in areas such as the linen trade, where bills were commonly granted on long-term credit.<sup>56</sup> Furthermore the business of the Bank as a discounter, while substantially enlarged, represented but 'the tip of an iceberg' as many bills were discounted elsewhere, or simply held to maturity. Perhaps the most significant implication of the Bank's growth as a discounter was that it shows that the second half of the century saw firms become increasingly comfortable and familiar with the discount market. Meanwhile bankers were also finding 'it increasingly attractive and not inadmissibly risky to satisfy this growing demand, domestic and foreign, for discounts'.<sup>57</sup>

As well as increasingly utilising the Bank of England, the City banks also developed a system for better settling payments between one another, which was reflected by the formal

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<sup>51</sup> Joslin, 'London's private bankers', p. 175; Clapham, 'The private business of the Bank of England', p. 78.

<sup>52</sup> Price, 'The Bank of England's Discount Activity', pp. 106-7.

<sup>53</sup> Clapham, 'The private business of the Bank of England', p. 83.

<sup>54</sup> Roger Fulford, *Glyn's 1753-1953, Six Generations in Lombard Street* (London, 1953), p. 94. At this point Glyn's had just been made receiver of the taxes for the City, Westminster and Middlesex, which may have been part of the reason for this decision.

<sup>55</sup> Clapham, 'The private business of the Bank of England', p. 84. The bankers were the third largest group of firms using the facility, after the West Indies and Irish merchants, who each accounted for over £0.5 million of bills.

<sup>56</sup> Price, 'The Bank of England's Discount Activity', pp. 108-12.

<sup>57</sup> *Ibid.*, pp. 112-3.



establishment of the London Clearing House in 1773. This venture is thought to have developed out of the actions of the banks' walk clerks, which may have dated back to the 1750s. At first it was a labour saving device, the clerks exchanging drafts and bills on their respective banks and then noting the balance outstanding. The banker would need to decide if he was willing to accept the paper being handed over. The clerks then met at a public house called the Five Bells at lunch to settle the balances that were agreed upon. The actual rental of a room evolved because bank owners became apprehensive of the number of notes being exchanged.<sup>58</sup> It is important to note the Clearing House's organic development: it was 'a remarkable instance of evolution; it was not suddenly created, but it was the outcome of a gradual growth brought about as a necessity to meet the requirements of the times'. As a means of settling payments more effectively it was extremely important: one author described it as the hub of City finance. This was especially true once it added the function for clearing country cheques. It was also advantageous to customers, who could expect their balances to be adjusted more quickly.<sup>59</sup> The House was exclusively used by City banks (31 in 1777).<sup>60</sup> In time commercial advantage could be gained from membership of the Clearing House: it offered obvious ease of payment, but 'also the preference of their paper in the bill market'.<sup>61</sup> The noticeable absentee from the Clearing House was the Bank of England, which did not join until 1864. This led Price to claim that the 'the use of cheques to transfer credits between it [the Bank of England] and the private banks must have long been limited'.<sup>62</sup> The outstanding balances between the private banks were settled through the use of Bank notes or bills, rather than through notional balance transfers within the Bank of England.

It is difficult to overstate the importance of the clearing house. One early nineteenth century commentator argued that City bankers and their 'ingenious contrivance of *the Clearing House*' were essential parts of the system and that without them the circulation would 'hardly remain in existence, or would at any rate be reduced to insignificant limits'.<sup>63</sup> The power of the City banks came through their agency on behalf of the country banker, a business which one contemporary estimated was exceeded £1.5 billion per annum, with Heywood suggesting it was more likely in the region of £2 billion.<sup>64</sup> The advantage of the clearing house was that it reduced the need for the use of currency in settling transaction, which obviously was a more convenient method of payment. This in turn allows a greater value of transactions to be made, as less currency is required.

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<sup>58</sup> Philip W. Matthews, *The Bankers' Clearing House, What It is and What It Does* (London, 1921), pp. 1-9; William Howarth, *The Banks in the Clearing House* (London, 1905), pp. 2-4; Thatcher C. Jones, *Clearings and Collections; Foreign and Domestic* (London, 1931) pp. 21-5.

<sup>59</sup> Matthews, *The Bankers' Clearing House*, pp. 1-3.

<sup>60</sup> Joslin, 'London Private Bankers', p. 184. This was out of a total of 36 City banks. Thatcher states that there were 33 members in 1777.

<sup>61</sup> Jones, *Clearings and Collections*, pp. 21-3.

<sup>62</sup> Price, 'The Bank of England's Discount Activity', pp. 92-3.

<sup>63</sup> B.A. Heywood, *Observations on the circulation of individual credit and on the banking system of England* (Bristol Selected Pamphlets, 1812), p. 72.

<sup>64</sup> *Ibid.*, pp. 72-3.

One of the reasons why the circulation in bills through the Clearing House was so successful was the practice of accepting bills, which increased the likelihood of the holder of the bill eventually receiving payment. Acceptance has two potential meanings. Firstly, any bill of exchange needed to be accepted to be valid for use. In this instance acceptance refers to 'the writing across the face of a bill by which the drawee agrees to the order of the drawer. The drawee is the person to whom a bill is addressed, and who is required to pay' the sum contained in the bill. It therefore represented the drawee's agreement to pay the bill.<sup>65</sup> Over time, some merchants developed this practice into a stand-alone business, where they used their specialist knowledge to guarantee other merchants bills of exchange, essentially beginning the process which would create the nineteenth century acceptance houses. In merchant banking terms, the act of adding a firm's name to the a bill 'gave it credibility and ensured that if it came to be sold or discounted before it fell due, it would be done at the most favourable rates'.<sup>66</sup> One historian has argued that the development of the acceptance business in London was a core component of the City's rise as a financial centre.<sup>67</sup> This business was carried out not only by bankers but also by merchants. Indeed, this activity as guarantors was one with which many merchants were more comfortable relative to 'pure banking'.<sup>68</sup> The gradual rise of the acceptance led to the creation in time of accepting houses, which Chapman describes as 'wealthy merchants who were graduating to pure finance and providing credits for manufacturers to send their goods to agents abroad'.<sup>69</sup>

Not all historians have been comfortable in applying such "merchant banking" terminology to this period, viewing the term as anachronistic.<sup>70</sup> Those that accept this view believe that all merchants and commodity traders were to some extent engaged in financial services. They argue that although the acceptance business might increase as a proportion of total business within the larger firms, there is no real basis to judge when this happened, or by how much.<sup>71</sup> Essentially there was insufficient specialisation at this stage to justify the term. However this line of argument does ignore the fact that in any period, merchant banking is not a clearly defined profession, with one author claiming that it was 'an ill-defined profession that included neither trading nor banking'.<sup>72</sup> While it is important to note that full specialisation was only achieved at a relatively late stage in the nineteenth century, the financial activities undertaken by these firms nonetheless existed at an earlier point. As Price suggests, although the terminology of merchant banking was not in use, the 'larger merchants in London and a few other ports performed many of the functions later

<sup>65</sup> William Thompson, *Dictionary of Banking: A Concise Encyclopedia of Banking Law and Practice* (London, 1965), p. 4.

<sup>66</sup> P. Ziegler, *The Sixth Great Power: Barings 1762-1929* (London, 1988), p. 30.

<sup>67</sup> Dixon, 'The development of the London money market', p. 23.

<sup>68</sup> Gauci, *Emporium*, pp. 162-64.

<sup>69</sup> Chapman, *Merchant banking*, p. 10.

<sup>70</sup> Richard Roberts, 'Whats in a Name? Merchants, Merchant Bankers, Accepting Houses, Issuing Houses, Industrial Bankers and Investment Bankers', *Business History* 35.3 (1993), pp. 22-6.

<sup>71</sup> Joncker, *Merchants, Bankers, Middlemen*, p. 187.

<sup>72</sup> Richard Kellett, *The Merchant Banking Arena* (London, 1967), p. 3. The author cites Sir Lawrence Jones

associated with those terms [merchant banker and acceptance house], including remitting government funds abroad and performing other services for the state; handling subscriptions to the national debt; and routinely accepting bills of exchange relating to transactions in which they were not otherwise involved'.<sup>73</sup> Other works on merchant bankers have seen the core competencies of the profession as providing credit to traders, or acting as business banks with strong international ties, operating in money or foreign exchange markets and doing the financial work of governments and other public bodies.<sup>74</sup> Again, it is clear that such functions were being carried out by eighteenth century intermediaries and that the changing emphasis away from trade to the provisions of credit makes it indeed appropriate to talk of merchant banking in this period.

However, while the eighteenth century undeniably saw a greater specialisation in financial activity by some of London's leading merchants, the firms were still hybrids in that most still maintained a link to the merchanting business. There were good business reasons to maintain this interest in commerce. This can be illustrated through reference to Amsterdam, for the delay in the adoption of the title of merchant banker was not unique to England. A desire to maintain close connections to the physical trade in goods has also been identified amongst the early financiers of Amsterdam, a mode of operation which lasted throughout the eighteenth and early nineteenth centuries. In this instance the lack of specialisation is therefore attributed to a justifiable commercial decision on the basis that the knowledge gained through trade was essential to conducting a successful financial business.<sup>75</sup> Another reason cited for the reluctance fully to retreat from the merchanting business was the fact that specialised financial dealings still delivered uncertain profits in comparison to overseas trade, which was the main occupation for the merchant.<sup>76</sup> Finally there were also perhaps cultural impediments to full specialisation, relating to the respective social status of merchant and banker, or at least formal acknowledgment of this shift: Henry Thornton's mother thought in 1802 that to move from merchant to banker was 'to descend in life'.<sup>77</sup>

A number of reasons have been suggested for the emergence of the acceptance business. Wilhelm and Morrison, drawing on both Dutch and English experience, argue that this development addressed informational asymmetries that could no longer be solved in the context of the family. In particular the authors describe an emergence of a 'technological requirement for trust'. The informational asymmetries became particularly noticeable in the eighteenth century Atlantic trade, and it was in this area that these authors saw the initial development of merchant banking practice.<sup>78</sup> The growth and changing structure of the American trade was certainly important: of the leading accepting houses of the early

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<sup>73</sup> Price, 'What did merchants do?' p. 282.

<sup>74</sup> Kellett, *Merchant Banking Arena*, p. 4.

<sup>75</sup> Joncker, *Merchants, Bankers, Middlemen*, pp. 189-90.

<sup>76</sup> Gauci, *Emporium*, p. 144.

<sup>77</sup> Cope, *Walter Boyd*, pp. 1-2.

<sup>78</sup> Alan D. Morrison and William J. Wilhelm, *Investment Banking, Institutions, Politics and Law* (Oxford, 2007), chapter 4, especially pp. 107-16.

nineteenth century, five originated from transatlantic merchant houses, compared to three from European ones.<sup>79</sup>

Acceptance as carried out by banks was distinct from that of the merchant. The key to understanding this distinction is that banks focused predominantly on bills relating to inland trade and tended not to get involved in the business of dealing in foreign bills.<sup>80</sup> This was a question of knowledge: they did not have enough knowledge to be able to take on the risk. The merchant who had been trading in foreign goods on the other hand did possess the knowledge that could be applied to endorsing the bills of lesser known foreign merchants in London.<sup>81</sup> Furthermore, there were structural changes in the nature of English trade that encouraged merchants to engage in such acceptance business. Chapman has argued that although provincial manufacturers were beginning to operate on a scale that allowed them to dispense with the services of a London export merchant, they still needed access to capital. Thus Liverpool remained financially dependent on London, and export merchants in the metropolis began to specialise in a banking function.<sup>82</sup> The motivation for merchants to devote a more significant share of their capital towards financial activities is hard to establish, however some reasons can be suggested. In terms of overall numbers, it has been suggested that the growing volume of trade was being concentrated in an increasingly narrow number of peoples' hands up to 1775, at which point the numbers begun to increase again.<sup>83</sup> Thus in 1700 there were about 1,000 merchants in London, and by 1760 this had grown to 1,300 (a 30% increase). In comparison, overseas trade had increased from £8.8 million to £19.1 million (a 117% increase).<sup>84</sup> This must have played some role in financial specialisation, as it meant that firms had greater demand for and more leeway to provide credit.

Of all the merchants that shifted to financial activities in the eighteenth century, the most well known example is Francis Baring, and the Barings archives provides one of the few opportunities to study this transition. The focus of most historical works on the Barings banking business has been its operation in the nineteenth century, perhaps because the business retained the character of 'general merchants until well into the nineteenth century'.<sup>85</sup> The basic outlines of the Barings' early history are well known, but as Orbell has indicated, there are still some useful avenues to be explored in the earliest surviving material.<sup>86</sup> Upon visiting the archives it becomes clear that the records of the firm provide a significant insight into their business activity in the eighteenth century. Three key points emerge from this study. Firstly, the firm had already developed a considerable financial business. As well as conducting a genuine merchant business, Francis Baring became

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<sup>79</sup> Chapman, *Merchant Enterprise*, pp. 70-74. The Indian trade was still controlled by the East India Company and was structured differently.

<sup>80</sup> Cope, *Walter Boyd*, p. 33.

<sup>81</sup> Dixon, 'The development of the London money market', p. 23.

<sup>82</sup> Chapman, *Merchant Enterprise*, p. 61.

<sup>83</sup> *Ibid.*, pp. 22-3.

<sup>84</sup> Gauci, *Emporium*, p. 82-4.

<sup>85</sup> Chapman, *The Rise of Merchant Banking*, p. 25.

<sup>86</sup> John Orbell, 'Private Banks and International Finance in the Light of the Archives of Baring Brothers' in Youssef Cassis and Philip L. Cottrell (eds.), *The World of Private Banking* (Farnham, 2009), pp. 143-6.

involved in two areas of banking: the issuance of government debt, both for the British and American government, and the acceptance of bills of exchange for their trading partners. Less appreciated are the strong links that the firm maintained with other members of the financial community and also perhaps the social standing of Francis Baring, and hence the firm, even at this early stage.

The firm of Baring Brothers originated in Exeter, where John Baring the elder had moved to from Bremen in 1717 and established himself as a merchant and manufacturer by 1723. He was followed in the business by his sons John, Charles and Francis. Francis was sent to London as a child and in 1755 was apprenticed to the merchant Samuel Touchet. He therefore was less connected to the woollen business. In 1763, the family firm was re-organised, with Charles heading the Exeter house and Francis controlling the new London house, both houses acting as a common concern. The purpose of the new London business was to improve financing through easier discount of bills and to gain new markets for the firm. Orbell describes the London house as a traditional agency house, where bills accepted by the Exeter house were made payable, negotiated and collected. In time, this could open up further avenues in finance.<sup>87</sup> However the early ambitions were undermined through Charles Baring's speculations and excessive drawings on the London house, which had started with a relatively small capital of £4,200. As such the largest account by far of the London business was its agency on behalf of the Exeter business. This partnership was dissolved on 1 January 1777, largely due to Francis' dissatisfaction with his brother's business acumen and conduct, which often left the London house's capital constrained.<sup>88</sup>

In spite of the help and guidance of both Samuel Touchet and the merchant and family friend Nathaniel Paice, over the first ten years of carrying out business in London, growth had been slow and profitability limited, with no profit in six out of 14 years. This was partly due to the difficulties resulting from the Exeter house's action, but also represented Francis' investment in learning the trade.<sup>89</sup> Over the last quarter of the century however the London house flourished. By contemporary standards, Baring's business became vast. By the end of the period, the firm was growing rapidly. In 1790, total assets were about £385,000, by 1795 £765,000 and in 1797 £1.66 million.<sup>90</sup> Part of the increase in size between 1795 and 1797 was linked to the addition of Hope's capital to that of Barings.<sup>91</sup> In terms of total asset size, only the largest banks, such as the Smith, Payne & Smith or Hoare's, reached a similar scale.

The business was multi-faceted, but the priority here is to focus on the acceptance business. Francis Baring's acceptance business commenced in 1768. Both Ziegler and Orbell make reference to the increasing importance of the acceptance business, although Orbell does qualify this by seeing it as the third line of business for the firm.<sup>92</sup> The acceptance

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<sup>87</sup> John Orbell, *Baring Brothers & Co. Ltd, A history to 1939* (London, 1985), pp. 4-5.

<sup>88</sup> Orbell, *Baring Brothers & Co.*, pp. 1-7; Baring, John Ingram, *Notes towards a history of Baring Brothers*, unpublished manuscript, pp. 16-26; Peter E. Austin, *Baring Brothers and the Birth of Modern Finance* (London, 2007), pp. 2, 9-10.

<sup>89</sup> Orbell, *Baring Brothers & Co.*, p. 5.

<sup>90</sup> Barings, HCOS, ff. 1-17.

<sup>91</sup> Buist, *At Spes non fracta*, pp. 40-50.

<sup>92</sup> Orbell, *Baring Brothers & Co.*, pp.4-5.

business grew substantially, as the firm's balance sheets demonstrate. In 1777 total liabilities for acceptances amounted to £42,000, a figure that had grown threefold to £121,000 by 1793.<sup>93</sup> Commission income (which included acceptances, but also other commission) went from £4,000 to £10,000 p.a. over the same period (Figure 7).<sup>94</sup> The French wars provided a further boost to this side of the firm's business and by 1797 liabilities from this source had reached £454,800.<sup>95</sup> In 1781-1784, acceptances formed about 17% of the total liabilities of the firm. By the mid 1790s, this had risen to about a third of the firm's business.<sup>96</sup>

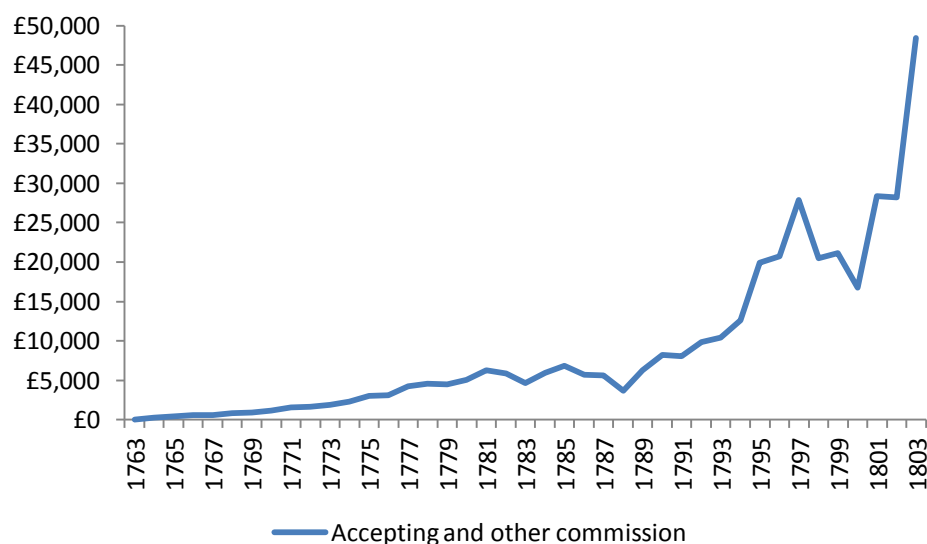


Figure 7: Barings' Acceptance and other commission income, 1763-1803 (Source: Ziegler, *The Sixth Great Power*, p. 373-4)

Much of this acceptance business appears to have been related to financing trade between Liverpool and the United States, although Hidy is unclear about exactly how much of the firm's resources were devoted to this business.<sup>97</sup> Baring's growing acceptance business is significant. It is of course possible that this was an isolated or extreme case, however it seems more likely that other merchants were engaged in a similar manner, even if on a lesser scale. The timing of the growth is also of interest, as it coincides with the general timing seen in many other emergent financial practices, attesting to the wider importance of this period in general.

The records also suggest that Baring carried out more basic banking tasks for commercial clients, although establishing the extent of their involvement in this area is difficult. Surviving correspondence can provide some indications, usually in instances where difficulties arose, making it difficult to assess how generally applicable these points are. One document shows the existence of an outstanding debt of £3,950 to the house, part of

<sup>93</sup> Ziegler, *The Sixth Great Power*, p. 30; Baring, NP1A5 and AC/OS ff. 1-17.

<sup>94</sup> Ziegler, *The Sixth Great Power*, p. 30.

<sup>95</sup> Ibid., p. 53.

<sup>96</sup> Baring, HCOS, ff. 1-17.

<sup>97</sup> R.W. Hidy, 'The House of Baring and American Trade', *Bulletin of the Business Historical Society* 9.5 (Oct, 1935), p. 72.

which was held through two promissory notes for £238 and £112. It also highlights some of the prospective income to pay this down, including dividends receivable of £1,250 and a bill for £250, which would total £3,579, presumably indicating that the firm expected to take a loss £371 on this business.<sup>98</sup> More substantial were problems relating to the firm of Richard and John Codman in Paris. From a letter from February 1797, it is clear that Codman was experiencing some difficulty in paying money due to Barings, which Codman estimated at £24,000.<sup>99</sup> In April John Baring informed John Codman that not only had a promised remittance of almost £5,700 not materialised, but that the firm was also underestimating its debts to Barings, which were actually in the region of £46,400. Furthermore this delay in payment was also causing some embarrassment for Barings with other customers.<sup>100</sup> Subsequent correspondence is indicative of the scale of the problem facing Codman: in a letter to Labouchere he claimed to 'feel hurt that so great delays have happened in the reimbursement of what Messrs Barings have so handsomely advanced my house'. Some of Codman's difficulties can genuinely be attributed to the challenges of selling and remitting cargoes (in this instance coffee) during a period of hostilities.<sup>101</sup> This debt remained an issue for some period, for a letter in April 1801 from John Codman to Messrs. Baring indicate that 'any new advances will be perfectly unavailing & that it is necessary that I should decidedly say that I cannot authorise them, in order that in future I may be relieved from that suspense which I have too long experienced. Besides I have every reason to think it is the only way to terminate my Brother's affairs in France'.<sup>102</sup> The final outcome of this situation is not clear, but it is indicative of the sizeable advances Barings was making to commercial firms during this period and the difficulties that could arise, especially in periods of conflict. It may indicate that the firm was acting as international commercial bankers.

The firm was undoubtedly financially astute. Extensive dealings in foreign commerce meant that the firm thought carefully about how it handled its foreign currency transactions in order that they were structured to achieve the greatest advantage to the firm. Thus notes were made on the advantages of converting 10,000 livres directly in Paris, where one would receive £412 for them, compared to Hamburg where £415 was achievable at sight, rather than two and a half months notice.<sup>103</sup> The records of the firm in this period show ways in which the partners could spot operations of a financial nature to deliver profits that had become completely detached from trade. For instance a document dating to approximately 1795 demonstrates how the partners looked at making money from investments in India Bonds. They estimated that they could buy £1,000 of Indian bonds for about £1,390, and use this as security to borrow £1,120 in Holland. This means that the bank would have to invest £270 of its own money, but through differences in interest payable on money in Amsterdam and the interest paid out on the bonds, after commissions

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<sup>98</sup> Baring, Northbrook Papers, NP1A 8.2, f. 7. Monies owed by an individual to Barings.

<sup>99</sup> Baring, HCOS 24, f. 1, R Codman to Baring.

<sup>100</sup> *Ibid.*, f. 2.

<sup>101</sup> *Ibid.*, f. 10.

<sup>102</sup> *Ibid.*, f. 21.

<sup>103</sup> Baring, Northbrook Papers, NP1A 8.2, f. 12. The document also discusses routing the transaction through Amsterdam and then Hamburg.

there would be a profit of £37 16s, delivering a return of 14% on the original £270.<sup>104</sup> It is not clear whether this scheme was ever enacted, but it shows clearly that the firm had moved well beyond simple merchanting actively to seek to profit from pure financial transactions.

While Francis Baring represents the foremost example of the merchant increasingly focusing on financial activities, he was by no means unique in so doing. Another example of this development can be found in the case of Cazenove. Of Swiss extraction, Theophile Cazenove settled in London in the mid-eighteenth century with his son Jean Henri, a merchant who was naturalised in 1762. He operated as a merchant dealing with the French and English East India Company, building a large connection to Lisbon, as well as drawing on connections in France and Amsterdam. He became involved in finance at an early stage, dealing in government stock and later securing business on behalf of the US government, distributing dividend payments to English holders of US securities. Cope argues that the family managed to establish a sound merchant banking business on the back of the family's extensive connections, but did not have the dynamism or the capital to put themselves in the same league as the Barings or the Thellussons.<sup>105</sup>

#### IV

This chapter has principally focused on understanding the significant growth and changing nature of City banking during the eighteenth century. For, although goldsmith-bankers pioneered the business of City banking, by the mid-eighteenth century the significance of the goldsmiths had clearly dwindled. Instead new capital and expertise was brought to the City banks by the commercial community of the City. While perhaps a natural development, given overlapping skill-sets across the two trades, the extent of merchant involvement in London's banks is not fully appreciated. In explaining the trend of increased merchant participation in banking, it is also important to acknowledge that the experience was not confined to City banks, for London merchants increasingly were specialising in other types of financial activity as well. Indeed commercial historians have long acknowledged the importance of the merchant community in their capacity as state financiers. Merchants were also notably developing embryonic merchant banking houses in the later eighteenth century. Merchants were consequently responsible for broadening and refining London's financial infrastructure. Equally importantly, while greater specialisation was occurring, intermediaries across and within groups were at the same time becoming increasingly interconnected through London's money market. City banks played a particularly important role in this area, as they sat at the hub of early interbank activity, especially through the development of the clearing house and their role as agents for country banks.

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<sup>104</sup> Baring, Northbrook Papers, NP1A 19.1.

<sup>105</sup> S.R. Cope, *Portrait of a Huguenot Banker, John Henry Cazenove, 1737-1817* (London, 1988), pp. 1-12.



## Chapter 4: City banking in practice

The previous chapter has highlighted the changing character of City banks in the eighteenth century, as they became more aligned with the commercial character of the City, and attempted to show their place within the City's wider financial sector. However it is also important to understand their development as banks. Two broad areas are covered: the first half of the chapter covers the internal workings of the bank, with a discussion of the types of customer and how these banks were managed, with a particular focus on Barclays bank. The second half of the chapter then explores the functioning of the London agency business that was important to a number of City banks and the English banking system as a whole.

Although the City in this period still had clear retail and residential functions, its significance in these areas was declining. The relative weight of the City's population within London shrank as newer suburbs were built, while the absolute population was also in decline.<sup>1</sup> Thus in contrast to West End banks, personal banking was relatively unimportant, and City banks were much more closely aligned to the needs of business. Given that many City bankers had strong mercantile links, it is perhaps not surprising that the clientele of City banks is generally understood to have consisted of London traders and merchants. As an example, the bank of Mason, Currie, James and Yallowely, founded in 1773, had about one hundred customers by June 1774, mostly City traders and manufacturers (especially merchants, wool and linen drapers), with total deposits of just over £87,000. The bulk of the bank's assets initially were in discounts, but by the 1780s it had expanded into providing loans for the brewing and distilling trades and developed an agency business for a few country banks. There was a clear connection between the previous activities of the partners and the customers of a bank. However there were obvious difficulties in making the transition to becoming a banker. William Currie believed that his bank was not particularly profitable.<sup>2</sup> It is also known that this bank experienced some difficulties in its early years: it had to borrow from Smith, Payne & Smiths, and these loans were grouped amongst the category of that bank's bad loans in 1782.<sup>3</sup>

A further example of the links between commerce and banking can be seen in the case of Vere, Glyn and Hallifax, established in January 1754. Glyn was a drysalter and as the only non-banker of the partnership might have been expected to play a secondary role.

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<sup>1</sup> Barnett, *London, Hub of the Industrial Revolution*, pp. 13-4, states the population was 135,000 in 1700 and 90,000 by 1750 and 65,000 in 1801. See also M. Dorothy George, 'Some Causes of the Increase of Population in the Eighteenth Century as Illustrated by London', *The Economic Journal* 32 (1922), p. 328. For the City within the walls, the data corresponds broadly with that shown by Barnett. Adding the City without the walls, the total population of the City would have been 203,000 in 1700, falling to 125,700 in 1801. Subsequent census data shows the population of the City around the 130,000 level until the mid-nineteenth century, when a further permanent decline set in. More recent data for the 1690s implies the extent of the population fall is overstated by these numbers, as the population estimate for 1700 looks too high (see <http://www.locatinglondon.org/static/Population.html>), however the total population would nonetheless have fallen by about 5%.

<sup>2</sup> Joslin, 'London Private Bankers', pp. 182-83.

<sup>3</sup> Leighton-Boyce, *Smiths the Bankers*, p. 83.

However Fulford argues that 'his [Glyn's] position in the City, his business experience and his private fortune suggest he must, in reality, have been pre-eminent in the partnership' and that he was responsible for securing many of the initial customers of the bank. This bank was again heavily focused on discounting and lent to some industrialists, but also developed an extensive agency business for both Scottish and English provincial banks.<sup>4</sup>

Given the clear connection between City bankers and merchants, it is of note that relatively little has been said of their significance in the literature on merchants. The most recent attempt to address merchants' use of London bankers is to be found in Hancock's *Citizens of the World*. He contests Joslin's view that bankers were significant in their provision of credit or loans to merchants in this period, but believes they instead acted as safe depositories.<sup>5</sup> Some caution is needed in accepting this conclusion for two reasons. The first is the limited number of merchants studied by Hancock: his sample was limited to 23 transatlantic merchants.<sup>6</sup> Furthermore he also only searched for these merchants' accounts at a narrow number of banks, namely the Bank of England, Barclays, Child's, Coutts', Drummond's, Goslings and Hoare's, alongside some of the Scottish banks. This means that he only covered two banks (Barclays and Goslings) with extensive City connections, of which Goslings' interest was with East Indiamen rather than Atlantic traders.<sup>7</sup> It is not inconceivable that the merchants had accounts with other City bankers. Equally Hancock was only really interested in bank lending: he did not really consider their role in making payments or discounting for example. Furthermore, even within this relatively narrow sample, there was evidence of bank lending to merchants. Sir John Boyd is known to have suffered from the failure of the City bankers Colebrooke, Lesingham & Binns in 1773, where he had £18,000 on deposit, and Oswald is known to have received loans from Barclays on four occasions for at least £1,000.<sup>8</sup> Finally substantial merchants could supplement access to a private banker with direct access to the Bank of England, as in the example of John Sargeant II, who had balances there and whose private banker could not be identified.<sup>9</sup> The evidence is therefore at best ambiguous and does not really justify Hancock's negative conclusion on the links between merchants and bankers.

Indeed Hancock's view is also at odds with that of Price, who studied the role of bankers specifically in relation to the Chesapeake trade. Price's conclusion emphasised the close connection of these merchant businesses with the nascent banks, indicative of an awareness of the merchants' need for banking facilities. While the overall level of credit that banks made available was not enormous, they were nonetheless useful, especially as providers of liquidity.<sup>10</sup> Although discounting of bills was the preferred activity of these banks, examples of direct lending can also easily be found. The sums involved were not

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<sup>4</sup> Fulford, *Glyn's 1753-1953*, pp. 4-6; Joslin, 'London Private Bankers', p. 183.

<sup>5</sup> Hancock, *Citizens of the World*, pp. 253-55.

<sup>6</sup> *Ibid.*, pp. 10-1.

<sup>7</sup> *Ibid.*, p. 255.

<sup>8</sup> *Ibid.*, pp. 253-54.

<sup>9</sup> *Ibid.*, p. 258.

<sup>10</sup> Price, *Capital and Credit*, pp. 93-5.

enormous, which he believes was sensible risk management on the part of the banks, given that 'they [merchants] were not the best of risks'.<sup>11</sup>

The relationship between banks and the brewing industry in London is one of the few instances where significant research into the finance of a London-based industry has been carried out. Mathias' study focused in particular on the finance of the Whitbread, Anchor (Barclays Perkins) and Truman breweries in the last two decades of the eighteenth century. The study shows the extent to which banks could finance domestic industry. In the case of the Barclays Perkins operation, the link was given in the name. Both Barclays and Gurneys lent money towards the initial purchase of the Anchor brewery in 1781. This was a relatively safe investment that would pay a 5% per annum return. Although the connection to these banks declined over time, they were 'perhaps vital on occasion' in the earlier years.<sup>12</sup> The extent of the connection with Gurney & Bland (via Barclays, Bevan & Co) in the the 1780s can be seen in that bank being used for the payment of suppliers of hops and in the provision of a £20,000 loan for expansion, repayable over four to six years in 1785. Other money was lent for shorter terms on notes, normally for four to six months, but usually renewable. This financing was provided by a variety of banks in London, including Barclays and Taylor & Lloyds, but also in the provinces, especially in Norwich.<sup>13</sup> A £20,000 loan was truly remarkable at a time when a large bank might only have assets of £300,000, in which case the advance would represent 6% of all assets. These loans were not liquid, although the strong underlying cash flows of breweries would have been attractive to the lender and provided some compensation. Nor was such lending atypical. The Trumans brewery similarly had familial links to banking families from the 1790s, when Sampson Hanbury entered the business. Taylor, Lloyds & Co. provided short-term financing to this business, the outstanding balance usually being £2-£12,000. From 1801 the Gurneys would provide longer term loans of around £5,000 to the brewery.<sup>14</sup>

The Whitbread brewery also drew on bank finance, despite having access to an internal quasi-bank, which provided £37,800 of internal deposits in 1796.<sup>15</sup> In 1786, the bank borrowed £10,000 from Child & Co, half of which was transferred to Down & Co the following year. In the 1790s, Down & Co provided short-term financing of between £5,000 and £18,000 over the summer months.<sup>16</sup> This example obviously also highlights the danger of trying to categorise a bank too strictly. Finally it should also be noted that the flow of finance went both ways, and the brewers could lend to the banks. When Norwich was experiencing financial stringency in 1783, the Barclay Perkins brewery lent Gurney & Bland £11,000 from August through to December.<sup>17</sup> Whitbread's was lending to both Brown & Co and Bowles & Co in the period 1800-2.<sup>18</sup> The financing of the brewery industry raises a

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<sup>11</sup> Price, *Capital and Credit*, pp. 89-94.

<sup>12</sup> Peter Mathias, *The Brewing Industry in England 1700-1830* (Cambridge, 1959), pp. 287-92.

<sup>13</sup> *Ibid.*, pp. 293-4. Another £10,000 was advanced in 1797 for a term of seven years.

<sup>14</sup> *Ibid.*, pp. 294-6.

<sup>15</sup> *Ibid.*, pp. 277-81. In times of crisis, this could act as a source of risk: in 1797 there was a run on this bank which led the owner of the brewery to seek emergency finance via both fire-sale of securities by senior staff and on expensive loans on mortgage of his own estates, see pp. 284-5.

<sup>16</sup> *Ibid.*, pp. 281-3.

<sup>17</sup> *Ibid.*, p. 296.

<sup>18</sup> *Ibid.*, p. 283.

number of interesting points. It has obvious significance as an example for the finance of domestic industry, both by provincial and London based banks. However it is also noteworthy because it shows how provincial banks' money could flow to London organisations and be sunk there, rather than remitted to other parts of the country, an issue that will be revisited below.<sup>19</sup>

Another sector to make use of City bankers were the insurance companies. After initially maintaining a small account with the Bank of England, the Sun Insurance Office then decided to hold its own cash from 1712 to 1741. In 1742, the decision was taken to lodge a portion of this balance with the bankers Messrs Colebrooke & Co, amounting to £3-6,000 in the 1740s, a sum which doubled in the 1750s. In 1751, the balance was transferred without explanation to Surman, Dinely & Cliffe, which failed in 1757 when the Office owed the bank £4,500. This account was taken over by Hankey's who provided a loan of £2,630 to repay Surman & Co. In 1776 this account was supplemented by one with Drummond & Co., to handle the cash of the Charing Cross office. Later that year the Office wanted a £10,000 loan from Hankey's, which was refused and led to yet another change of banker, this time to Messrs Mason, Currie, James & Yallowley.<sup>20</sup> The nature of these advances seems to have been short-term, partly to stop the Office having to sell securities to meet pending obligations. In 1756 £7,000 was borrowed from Surman & Cliffe towards a £20,000 loan the office was providing to Lord Pomfret; in 1769 Hankey & Co provided £6,000 for a £13,000 loan to Edward Mansell.<sup>21</sup>

Bankers of course required some flexibility in their business model, and it has been shown that City bankers needed to adapt their business models during periods of conflict, as monetary conditions tightened. The entry and potential exit from conflicts caused volatility in the price of government securities owned by banks, and also could affect the level of deposits that customers would be willing to leave with banks.<sup>22</sup> Wartime conditions meant it was not always possible for a bank to accommodate its customers, even if the requirements of the client were legitimate. Thus Glyn, Mills, Hallifax & Co were obliged to turn down an application from the brewers Meux & Co to borrow £10,000 (half of the total for six months, the other half for nine) towards the £40,000 cost of a new brewhouse. The brewers faced 'a temporary depression in our cash', as the construction of this structure caused them to need to buy in beer for their trade. The depletion of stocks of hops and malt would facilitate the repayment of this loan. The bank responded that that it 'will not at present be convenient for us to comply with the request' as 'our balances are very much reduced, so much so, that we have been under the necessity of calling upon money of our friends'. This was attributed to the 'circumstances of the time', i.e. the Revolutionary

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<sup>19</sup> See below, pp. 109-10.

<sup>20</sup> P.G.M. Dickson, *The Sun Insurance Office, 1710-1960; The history of two and a half centuries of British Insurance* (Oxford, 1960), pp. 236-9.

<sup>21</sup> *Ibid.*, pp. 252-3.

<sup>22</sup> D. M. Joslin, 'London Bankers in Wartime, 1739-84', in L.S. Pressnell (ed.), *Studies in the Industrial Revolution* (London, 1964), pp. 156-77.

Wars.<sup>23</sup> However this example is illuminating, for it suggests that in normal times such a request would probably have been granted. It is therefore indicative of the type of role that City banks played as a source of funds for the London's business community.

The strength of London's economy also meant that in their early stages at least, London's banks did not need to look elsewhere in the country for business or profit.<sup>24</sup> Sayers argues that provincial customers were in general an exception and that the vast majority of a City bank's customers were based in London and formed part of the mercantile community.<sup>25</sup> Some London bankers did however engage in lending to businesses outside of London. The Carron Iron works arranged for a £10,000 credit from Walpole, Clarke & Bourne, although this does appear to have been a reserve option for the Company. In 1769, the Carron Company was also provided with financing from Glyn & Hallifax, via an account in the name of Francis Garbett. In the crisis of 1772, it was thought that over £50,000 was due to the bank as accommodation bills were presented for payment.<sup>26</sup>

How this activity was reflected in balance sheets of the banks at this time is difficult to establish with any precision, as detailed information on the operation of City banks is scarce and dispersed. Joslin's analysis was based principally on the records of Surman & Stone (Martin's bank). As with banks previously covered, depositors and customers of this bank were largely City men, together with some country correspondents (based on evidence from 1731). These included both well known English mercantile firms and Anglo-Dutch and Anglo-Portuguese concerns. The bank was smaller than its West End counterparts at this time, with deposits of £139,995 and a note issue of £19,476. Almost half of the loans were covered by cash; assets included loans to City men, the discount of bills (the larger part of the business), and securities investment.<sup>27</sup> Depositors increased from 195 to 255 between 1732 and 1744, with total deposits in 1749 standing around £194,000, a decline from the £247,000 held on deposit in 1744. The bank also grew the payouts to its partners over this period, although the absence of detailed balance sheets makes the reasons for this increase difficult to establish (see Table 3).

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<sup>23</sup> RBSGA, Glyn Mills Currie & Co, Guard book, volume 1, p. 107, Meux & Co to Glyn, Mills, Currie, 2 February 1797. Mathias' study of the brewing industry does not consider the financing of Meux & Co in this period.

<sup>24</sup> Bowen and Cottrell, 'Banking and the evolution of the British economy', p. 96.

<sup>25</sup> Sayers, *Lloyds Bank*, p. 91. This is probably based on the experience of Hanbury, Taylor, Lloyd & Co, and Barnetts, Hoares & Co.

<sup>26</sup> R.H. Campbell, 'The financing of the Carron Company' *Business History* I (1958), p. 30-2. The debt to Glyn and Halifax was against an original estimate of the debt at £4,282.

<sup>27</sup> Joslin, 'London Private Bankers', pp. 179-80.

Year	Profits
1732	£2,500
1733	0
1734	£6,000
1735	£4,500
1736	£4,500
1737	£4,500
1738	£4,500
1739	£3,000
1740	£4,500
1741	£6,000
1742	£6,000
1743	£8,400
1744	£7,000

Table 3: Profits attributable to the partners of Martin's Bank (Source: Chandler, *Four Centuries of Banking*, vol. 1, p. 119)

At this stage the bank was unwilling to engage in lending upon mortgage or allowing overdrafts. In 1753 they wrote to a customer:

our manner of carrying on business is to let nobody overdraw their account without having bills in our hands, and then if we like those bills we discount one or more of them, as much as is wanted to pay the drafts on us. We always discount the bills that have the least time to run that you may not pay more discount than you need ... there is now about three hundred pounds due to us ... we have not charged you any interest for money advanced as we look upon what has been done only as a trial.<sup>28</sup>

To a different customer in Birmingham, they explained that they were happy to conduct his business, but would expect him to always have £1,000 on deposit at the bank.<sup>29</sup> While the bank was willing to deal with customers outside of London, it did not take on many agency businesses for country banks.<sup>30</sup> Those few country businesses it did administer appear to have been fairly routine: discounting bills, granting acceptances, investing in securities, making payments and receiving deposits. This was undertaken on the provision of a cash balance by the country correspondent.<sup>31</sup> The long-term growth of this firm was constant, but not spectacular: by 1789 deposits totalled £370,210, a compound growth rate of about 1.7% per annum from the levels in 1731. The structure of the business did not change substantially over the course of those six decades, although some advances on mortgages were added and the note issue was reduced, usually to below £10,000.<sup>32</sup> In this later period, the bank gained perhaps its most famous London customer, Baring & Co, whose account turned over £45,000 in the year of 1774.<sup>33</sup>

Similarly, Dimsdale's bank described their business as to 'provide accommodation "for any space of time, not exceeding three months, upon good Bills of Exchange, or Notes of Hand

<sup>28</sup> Cited in Chandler, *Four Centuries of Banking*, pp. 134-7.

<sup>29</sup> Chandler, *Four Centuries of Banking*, p. 138.

<sup>30</sup> Ibid., pp. 157-8.

<sup>31</sup> Joslin, 'London Private Bankers', p. 180.

<sup>32</sup> Chandler, *Four Centuries of Banking*, pp. 214-8.

<sup>33</sup> Ibid., p. 151.

with one Indorser at least, upon East India Warrants, East India, upon Receipts for Publick Loans or upon any of the Government Securities of this Kingdom”’.<sup>34</sup> This focus on short-term lending via discount was readily apparent in the balance sheets of the firms for which they are known. The importance of discounting was however not unique to Dimsdale’s, but common to all City banks, across the whole century. Most City banks would have at least 50% of their assets invested in bill portfolios, with 60-70% appearing to be a more likely level, as some of the sample balance sheets reproduced in Table 4. The discount facility was essential for many private banks’ customers, many of whom would have also had a discount account with the Bank of England. However the Bank could impose restrictions on customers in terms of the volume of discounts it allowed or the bills it would accept. At other times, the Bank might refuse to discount on the basis of location or nationality, such as in 1772, when it refused to discount most Scots bills and those of Jews with connections to Amsterdam. What set the private banker apart was the ability to offer more consistent service and also grant special accommodation.<sup>35</sup> If a banker stopped discounting a client’s bill, it could lead to a switch of banker: the Maryland merchant Joshua Johnson switched his account from Hanbury, Taylor & Co to Prescott’s in 1772 for this reason.<sup>36</sup>

	Baron Dimsdale, Son & Co		Prescott, Grote & Co		Smith, Payne & Co		Barclays		Martin’s	
Year	<u>1796</u>		<u>1780</u>		<u>1797/98</u>		<u>1784</u>		<u>1744</u>	
Cash reserve	£25,347	12%	£94,102	31%	£158,225	18%	£71,616	31%	£125,456	48%
Discounts	£158,031	73%	£204,226	66%	£448,581	50%	£78,362	34%	£137,440	52%
Loans	-		£4,200		£51,334		£16,421			
Investments					£218,500		£58,161			
Country Banks	-		-		-		£4,491			
Other	£32,245		£3,780		£16,194		£2,138		-	
Total Assets	£215,623		£308,088		£892,834		£231,189		£262,896	
Capital	-		£30,458		£52,000		£20,000			
Profit and Loss (Reserve)	-		-		£74,269		-			
Deposits	£186,763	87%	£277,630	90%	£720,117	81%	£182,769		£246,832	
Country Bank balances	£21,933		-		-		£21,329			
Cash notes	-		-		£46,199		£3,740		£16,064	
Other	£6,927		£0		£249		£7,091		-	
Total Liabilities	£215,623		£308,088		£892,834		£231,189		£262,896	
Profits			£10,000						£7,000	
Return on Assets			3.25%						2.66%	

**Table 4: Simplified balance sheets for selected City banks (Source: for Baron Dimsdale and Prescott Grote, see Anon. ‘Prescott’s Bank’; for Martins, see Chandler, *4 Centuries of Banking*; for Smith, Payne & Co, see Leighton Boyce, *Smiths the Bankers*)**

<sup>34</sup> Cited in Anon, ‘Prescott’s Bank: the First 125 Years’, pp. 11-2.

<sup>35</sup> Price, ‘The Bank of England’s Discount Activity’, pp. 99-105.

<sup>36</sup> Ibid., p. 105.

Much of this discounting then was carried out primarily on behalf of customers of the bank, most of whom were London merchants, who on average might discount four or five notes each per year. This becomes clear in the case of Smiths', where the bill portfolio of over £0.5 million in 1798 was said to consist of

bills [which] had nearly all been discounted for customers of the bank. Only a handful had been re-discounted for the Smith's banks in the provinces and other provincial banks for which Smith, Payne & Smiths were the London agent.<sup>37</sup>

Some of this portfolio could be financed by the deposits of the agency banks. However a small portion of the portfolio consisted of bills of London merchants that were not clients of the bank. Through to the mid-1780s, Smiths' seems to have regularly sold and purchased parcels of bills in the City (but not with the Bank of England) to match the cash it had available. The portfolio in 1798 consisted of 392 at an average of £1,324. Not all bills were commercial: some covered loans, such as a loan of £18,000 to a firm of brewers. Other extensive borrowers were the Goldsmids, who had £42,000 outstanding, while the Thistle Bank in Glasgow was lent money through two bills totalling £18,000.<sup>38</sup>

A few other important points emerge from Table 4. Smith, Payne & Co was atypical in terms of its size: total assets were over twice those for the other City banks shown here. One can argue that the typical size of a City bank appears to have normally been in the region of £200,000 to £300,000. All these banks were however highly liquid. Based on evidence from Barclays, Prescott, Grote & Co, Martins, Smiths' and Lloyds, Price argues that liquidity was a key feature of City banks, with cash reserves of 30% to 50% not uncommon.<sup>39</sup> Finally one can make some brief comments on profitability. The firm of Marlar, Lascelles, Pell & Down, which dealt in acceptance and government paper, as well as forming connections with Country Banks, generated profits of between £1,500 and £2,000 per annum in its early years.<sup>40</sup> In 1765, Glyn's made a profit of £3,700, earning a return of about 15.5% on the firm's £24,000 capital.<sup>41</sup> Hanbury, Taylor, Lloyd & Bowman generated a return on equity of 11% per annum for its partners in the first five years of its existence.<sup>42</sup> This sounds modest in comparison to some of the more established banks, but given this firm was established with a capital of £20,000, the implied £2,200 annual profits appears to be of a similar order to other newly established banks.

### I – Barclays, Bevan, & Co

Following this general overview of City banks, the following section aims to complement the above analysis through a more in-depth look at the records of Barclays, to provide a better understanding of its longer-term development. Although a new history of the bank has been published fairly recently, it does not provide much detail on the bank's operation

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<sup>37</sup> Leighton-Boyce, *Smiths the Bankers*, p. 88.

<sup>38</sup> Ibid., pp. 88-90.

<sup>39</sup> Price, *Capital and Credit*, pp. 85-7. He also included evidence from Scottish and provincial banks.

<sup>40</sup> Joslin, 'London Private Bankers', p. 181-2. It was founded in 1774.

<sup>41</sup> Fulford, *Glyn's 1753-1953*, p. 16.

<sup>42</sup> Humphrey Lloyd, *The Quaker Lloyds in the Industrial Revolution* (London, 1975), pp. 208-9.



in the eighteenth century, focusing instead upon the changes in the partnership structure.<sup>43</sup> Barclays was founded in the 1690s by John Freame, a Quaker goldsmith in Lombard Street. He took into partnership Thomas Gould, who was the son of a Kentish Quaker merchant family. Its main business in these early days lay in taking deposits, discounting bills and issuing loans, chiefly to the London merchant community.<sup>44</sup> In 1730, Joseph Freame took over the management of the business, while Gould's son left the partnership to set up his own bank, which was bankrupted within two years. In 1733 therefore, James Barclay, a Quaker of Scottish gentry origin, but whose father's main interest was by this point a substantial linen business, was taken into the business.<sup>45</sup> John Freame the Younger entered the partnership in 1755 and while he was a partner until his death in 1770, it is argued that he lacked of dynamism and a real interest in banking.<sup>46</sup> After his death, his wife removed herself with their 2 year old child to the country, so ending the Freame's association with the bank. Although there was a hiatus between 1766 and 1774, when no Barclay was a partner in the bank, it would eventually come largely under the control of the Barclay family, who also benefited substantially from the Freame inheritance. The Barclays' focus upon the bank was further strengthened when the American wars damaged their linen interests.<sup>47</sup>

During the course of the last third of the century two further Quaker families became involved with the bank, the bank becoming Barclay, Bevan, Tritton & Co. The Bevans had been Welsh merchants from Swansea and were previously clients of the bank. John Tritton, had been a partner in the bank Brown, Collinson & Tritton from 1778, which failed in 1782. He joined Barclays partly through the support of Mary Barclay and brought with him some of his former bank's customers. In time he developed the reputation as a very astute banker.<sup>48</sup> The Bevan connection brought with it the connection to the Gurneys, as Timothy Bevan had married into that family. This generated advantages for the bank through the interlocking partnerships.<sup>49</sup> For about ten years from 1766 to 1776, there were two partners in the firm that had no long-term involvement, these being Smith and Bening, the latter a former clerk within the bank, while the former eventually retired in return for £500 per annum.

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<sup>43</sup> Ackrill and Hannah, *Barclays, The Business of Banking*, pp. 1-42; details of the early bank can also be found in Mathews and Tuke, *History of Barclays Bank Limited*, provides a similar focus on the changes in the partnership, yet in other respects their account of the bank's early years is limited.

<sup>44</sup> *Ibid.*, pp. 1-12. Details of these early years are not known due to the absence of records pre-1729.

<sup>45</sup> *Ibid.*, pp. 13-6. James Barclay was also married to John Freame's daughter. His father, David Barclay was worth £100,000 upon his death. The business was in Cheapside and they were previously clients of the bank. Hilton Price, *Handbook*, and J.M. Price, 'The Great Quaker Business Families of Eighteenth-Century London: The Rise and Fall of a Sectarian Patriciate', in R.S. Dunn and M.M. Dunn, *The world of William Penn*, (Philadelphia, 1986), p. 367, both state that the date of James joined the bank in 1736.

<sup>46</sup> See BGA, 364/15 and 364/ 17 for the changes in the partnership. For these years the partners were therefore Joseph Freame, James Barclay and John Freame, each with a one third share in the bank.

<sup>47</sup> Ackrill and Hannah, *Barclays, The Business of Banking*, p. 16-17. The Barclays inherited half of the founder's capital in the bank from John Freame. See also Price, 'Great Quaker Business Families', pp. 366-68.

<sup>48</sup> Ackrill and Hannah, *Barclays, The Business of Banking*, pp. 18-19.

<sup>49</sup> *Ibid.*, p. 21.

While the changes in the composition of the partnership over time are relatively clear, much less is known of the firm's actual banking business. Hannah and Ackrill talk about this only in very general terms, highlighting the firm's engagement in 'deposit taking, discounting foreign and inland bills of exchange and loan accounts'. These operations were conducted largely on behalf of businesses within London's economy, including the brewing industry and the London Lead Company.<sup>50</sup> Price has made some further remarks on the operation of the firm for the period c.1750-80.<sup>51</sup> This analysis was partly based on Barclays' links with the Chesapeake trade. An important point Price raises is not just the number of these connections, but the quality of the customers that the bank serviced, including Capel & Hanbury; Z.P. Fonnereau; Thomas and Richard Penn; Gurnell, Hoare & Harman; and Ambrose and John Crowley.<sup>52</sup> He also noted some broad trends in the development of the bank's finances over the course of the eighteenth century. Barclay's liabilities peaked in the late 1750s, when they stood at £308,637, a level not reached again until December 1798.<sup>53</sup> Price argued that the bank was highly profitable, generating an estimated 36% return on capital for the partners.<sup>54</sup>

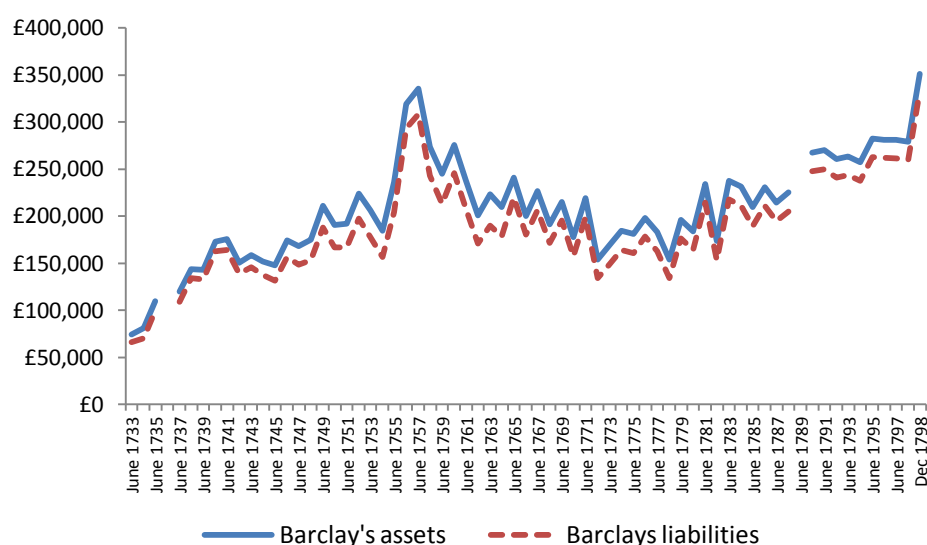


Figure 8: Barclays bank assets and liabilities, 1733-1798 (Source: BGA, 0131-0071 to 0131-0084, 364/1 to 364/50)

Figure 8 illustrates the growth of the firm from 1733 to the end of the century. A number of key phases can be identified. During the twenty years from 1733 to 1753 the firm grew reasonably steadily. From 1754 to 1757 there was a vast expansion in the firm's balance

<sup>50</sup> Ibid., p. 12.

<sup>51</sup> Price, *Capital and Credit*, pp. 71-6, 79, 81-2, 90-1.

<sup>52</sup> Ibid., pp. 71-3. The son of Samuel Hoare, of Gurnell, Hoare & Harman, was apprenticed to Henry Gurney in Norwich and then joined the bank Bland & Barnett, apparently because at the time it was the only bank in London with only two partners. The bank eventually became Barnett, Hoare & Co, see Hilton Price, *Handbook*, pp. 13-4.

<sup>53</sup> Ackrill and Hannah, *Barclays, The Business of Banking*, p. 16; Price, *Capital and Credit*, pp. 81-2. The initial peak was in 1757, see BGA, 364/10. For December 1798, see BGA, 364/50.

<sup>54</sup> Price, *Capital and Credit*, p. 79.

sheet to its peak, followed by an equally sharp downturn by 1762. From 1762 to 1772, the firm's balance sheet very gradually contracted, bottoming in that year with liabilities of £134,178.<sup>55</sup> The last quarter of the century witnessed a return to a steady growth phase, until the Suspension of 1797, which coincides with a sharp upturn in business. If one ignores the extreme spike around 1760, one can broadly speak of a growth period through the second quarter of the century, stagnation in the third quarter, with renewed expansion in the final quarter of the century.

Explaining the events of the late 1750s and early 1760s is not a matter of certainty. What is clear is that from 1754 to 1756, around the point that John Freame entered the bank, the cash held by the firm almost trebled, before falling sharply by 1758. It is notable that the contraction from 1762 onwards occurred at a time when the bank experienced a degree of turnover amongst its leading partners. The Freames, who had been the senior family, were exiting the business at this stage, while James Barclay died in 1766, at which point none of his Barclay successors were available to inherit his share, leading to Isaac Smith (who remained a partner until 1775) and then Silvanus Bevan joining the partnership.<sup>56</sup> The return of a member of the Barclay family (David Barclay) to the partnership in 1776 coincided roughly with the trough of the bank's size.<sup>57</sup> While one would hesitate to attribute all the performance of the bank to the presence of a certain family in the partnership, it is nonetheless likely that frequent changes in partners was destabilising and had some impact on the performance of the business. This is particularly likely because in general the third quarter of the century was a period of expansion for other banks.

The decision of Joseph Freame to leave the bank had a very noticeable impact. The Freame family had been connected with the bank since its inception and a substantial part of the firm's capital was attributable to that family. For example in 1755 Joseph Freame owned two thirds of the firm to James Barclay's one third.<sup>58</sup> Until 1764, the bank had been gradually increasing its capital, however in that year, Joseph Freame's share of the capital was paid to him, and withdrawn completely from the bank.<sup>59</sup> This meant that the bank effectively lost one third of its capital, which fell from over £33,600 in 1763 to £21,320 in 1765.<sup>60</sup> From 1766, the firm's capital was fixed at £20,000 and remained at that level until the end of the century.<sup>61</sup> While this could reflect the fact that the partners were constrained by an inability to increase their capital, it seems more likely that this was a conscious choice by the partners, especially as the re-investment of profits would not have been precluded. It is possible that they decided that the bank was operating around its optimal scale, and were therefore content to maintain this level of capital. This would be supported by the firm's assets remaining around £200,000 between 1766 and the early 1790s. Price argues that this decision not to grow capital was not uncommon, as many

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<sup>55</sup> BGA, 364/25.

<sup>56</sup> BGA, 364/22 and 364/25.

<sup>57</sup> BGA, 364/29.

<sup>58</sup> BGA, 364/8.

<sup>59</sup> BGA, 364/15 to 364/17.

<sup>60</sup> BGA, 364/16 to 364/18.

<sup>61</sup> BGA, 364/19 to 364/50. The fixing of the firm's capital is noted in Price, *Capital and Credit*, p. 76.

bankers were ‘cautious about risky expansion and did not consider book capital all that important’.<sup>62</sup>

However this did not prevent continued volatility in the firm’s liabilities (Figure 9). Thus over the period as a whole, the firm on average grew at 4% per annum. However, the standard deviation was substantial, at 17 percentage points. If one considers just the period from 1762 to 1788, where the overall size of the firm remained static, the volatility is even more pronounced, with a standard deviation of 19 percentage points around a mean of 2%.

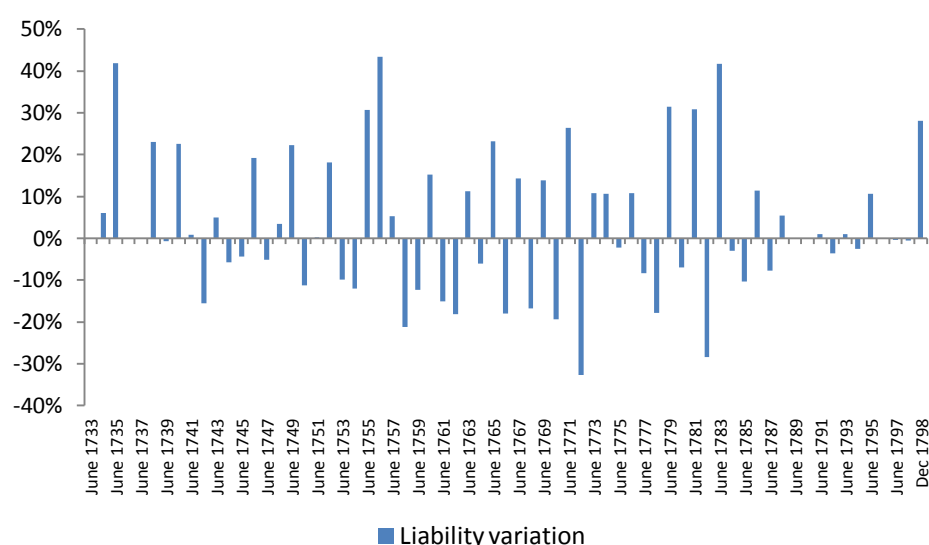


Figure 9: Changes in overall liabilities of Barclay & Co, 1733-1798 (Source: BGA, 0131/0071-0084, 364/1-50)

The ability to gain an in-depth understanding of the management of the firm’s assets and liabilities is limited by the quality of the surviving balance sheets. The dates chosen for the more in-depth analysis of the balance sheets are in many ways rather arbitrary, partly dictated by the quality of the records in any given year. In 1748 Barclay’s bank had almost £175,000 worth of assets, of which £78,700 were in cash. The partners had a joint-capital of about £21,300. Other assets appear to have been quite a mix, but were dominated by customer loans or overdrafts (it is not possible to distinguish between the two from the main balance books). They also included some £465 worth of shares in a lead mining venture, £7,500 of Bank Annuities, £10,100 of East India Bonds and £1,100 of lottery tickets (a total of £19,165 worth of securities of various descriptions).<sup>63</sup> Altogether this means that that total liquid assets accounted for about 56% of the firm’s assets, with 45% of this in cash, once again highlighting how banks sought to maintain incredibly high levels of liquidity.

By 1786, the balance sheets become more detailed, allowing some more granular comments to be made, as well as comparisons to other banks. We have already noted that

<sup>62</sup> Price, *Capital and Credit*, p. 80.

<sup>63</sup> BGA, 364/1.

the partners had fixed the firm's capital at £20,000 in 1766. Assets had grown since 1748, and stood at £231,000, of which £71,600 was still held as cash (31% of total assets).<sup>64</sup> Investments in securities were almost £55,100 (24% of assets). In term of the firm's overall liquidity therefore, no substantial change had taken place since 1748, although there was a greater preference for securities that generated a return for the bank. The discount ledger held a balance to the bank's credit of £78,360, or 34% of all assets. In comparison, loans were relatively insignificant, accounting for only 7% of assets. The other notable change was that the bank had established a substantial country agency business, acting as agent to 11 banks. Seven of these had deposits with Barclays, while four were running overdrafts, with an overall net position of £16,383 deposited at Barclays. The bank still seems to be issuing a very small number of its own notes (about £3,740, given as 'Notebook'). In summary then, the balance sheets would indicate that Barclay's was fairly typical for a City bank of this period.

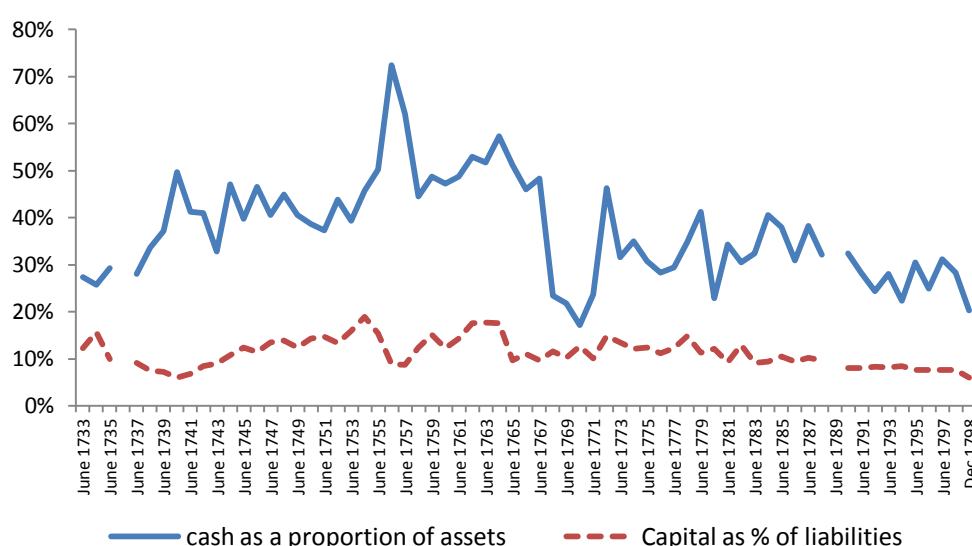


Figure 10: Cash and capital of Barclays bank in the eighteenth century (Source: BGA, 0131-0071 to 0131-0084, 364/1 to 364/50)

The overall size of the firm may have fluctuated, yet Figure 10 shows that in contrast its capital buffer remained remarkably steady, remaining around 10% from 1763 onwards. It is worth bearing in mind that the bank's capital was fixed at this point. The general increase in capitalisation from 1740 to 1754 reflects the retention of profits within the bank by its then partners. The steep decline from 1755 to 1756 was attributed by the partners to an act of fraud on the part of a clerk, which cost the partners £5,947.<sup>65</sup> While the capitalisation of the bank was remarkably consistent, a different trend can be seen in the bank's cash reserves. Ignoring the extreme peak and trough in 1756 and 1770 respectively, one can suggest that from 1733 to 1755, the bank tended to maintain its cash reserve around the 40% mark. The upward trend in cash levels in the late 1730s is perhaps attributable to a more conservative positioning of the bank by its partners ahead the

<sup>64</sup> BGA, 364/39. There are some extra sheets that hold slightly different figures, but not of such a magnitude to make a material difference to this analysis.

<sup>65</sup> BGA, 364/9.

Austrian War of Succession. Similarly, at the outbreak of the Seven Years War there was an obvious move towards holding more cash. However from the end of that war onwards there is a very clear downward trend in this ratio, with an average around 30% for the last 20 years of the century, which may be indicative of a greater confidence on the part of the partners in their ability to manage the bank effectively.

Overall, the performance of Barclays over the course of the eighteenth century looks mixed. It initially experienced strong growth, and appears to have been profitable. In terms of its balance sheet composition, it looked like many other City banks of the period, and in that sense is unremarkable. From an operational perspective Barclays was similar to Smiths': both had a strong focus on liquidity. Smiths' tended to operate with a pure cash liquidity ratio of at least 20% and a broader ratio (including discounts) of over 70%.<sup>66</sup> Equally the business split of Smiths' in London is fairly close to that of Barclays: in 1797, bills discounted accounted for 46% of the balance sheet, while 24% was invested in government securities.<sup>67</sup> Both banks had similarly strong country connections to draw upon. However questions can be raised over Barclays' performance in the second half of the century. The bank appears to have stopped growing at precisely the time that conditions for banking were becoming more favourable. The contrast with the Smiths' London bank is stark. This bank was of less long-standing in London, having not been proactively managed until 1769.<sup>68</sup> By 1797, with total assets of £821,000 it was about two and half times the size of Barclays.<sup>69</sup> Smiths' Bank was admittedly atypical, however Barclays was also smaller than Prescott's, whose ledger debts and notebook debts alone totalled £413,000 in 1793.<sup>70</sup> It seems likely that this was a result of the partners' decisions, either through a lack of leadership at important times, a lack of talent, or through being overly cautious. It therefore does not seem unreasonable to suggest that Barclays could have done more, given its position at mid-century.

## II - The London agency business

So far this chapter has focused on the London centred activities and internal development of these banks. The final important function of the City banks was as agents to Country Banks. It is to the matter of this agency business, a subject of considerable historical interest, that the remainder of this chapter will be devoted. Economies as a whole rarely fit the model of centre and periphery, however it cannot be denied that the English financial system was based upon such a relationship.<sup>71</sup> The reasons for this London-focused network were of long-standing origin and included the presence of the national debt markets, the tax collectors and the fact that it was the country's leading port. Regardless of the reason for London's centrality, the fact remains that a provincial bank could not

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<sup>66</sup> Leighton-Boyce, *Smiths the Bankers*, p. 87.

<sup>67</sup> *Ibid.*, pp. 85-6.

<sup>68</sup> *Ibid.*, pp. 74-6.

<sup>69</sup> *Ibid.*, p. 316. In 1798 Smiths' assets totalled £964,000.

<sup>70</sup> Price, *Capital and Credit*, p. 81.

<sup>71</sup> For a discussion of nucleic economies, see Fisher, 'London as an "Engine of Economic Growth"', p. 185.

function without a London agent. Black has highlighted that one of the first issues a country bank needed to address was the employment of an agent bank in London.<sup>72</sup> The emergence of the agency system has been viewed as one of the key features in creating a fully integrated banking system in the UK. It was on the basis of the agency system that Rondo Cameron could suggest that country banks were the 'most important feature' of English banking.<sup>73</sup>

The agency system is significant to the overall understanding of the English economy during this period. Many discussions of eighteenth century financial requirements tend to focus on regional, or even local, imbalances of supply and demand for credit. It is common to refer to industrialising regions, such as Lancashire, the West Riding of Yorkshire or the Midlands, as developing capital deficits, while other regions, in particular East Anglia had surpluses of savings that needed effective employment. Developing 'conduits and intermediaries' to meet these differences effectively is consequently perceived to be a principal *raison d'être* of banks that developed during the eighteenth century. Nor is this gap perceived to be solely geographic, but equally sociological, between landed, commercial and professional wealth and entrepreneurs without direct access to these groups.<sup>74</sup> Pressnell goes so far as to claim that, when they first emerged, local banks' 'leading function was that of remittance, and their most indispensable feature was a regular link with the London market'.<sup>75</sup> The importance of remittance reflected the historic role of London as a centre of the bill market. The discounting of bills was also carried out in counties such as Norfolk, Suffolk or Sussex, but the opportunities in London were more substantial than in the provinces.<sup>76</sup> Unsurprisingly the topic is one that has also interested historical geographers: Iain Black in particular believed that the activities of bankers could throw light on inter-regional and intra-regional economic relationships and that this was important for developing our understanding of Britain's Industrial Revolution. He argues that the drive to look at events at a more regional level, as advocated in particular by Pat Hudson, has gone too far and obscures the integrated nature of the English economy.<sup>77</sup>

In the integration of regional economies, financial flows can be conceived of as roads, some of which are better travelled than others.<sup>78</sup> The most thorough analysis of major flows of capital throughout the country has been carried out by Black. His research interests as a geographer focus on spatial differentiation within Britain during the Industrial Revolution and the way these were overcome and harnessed to form an integrated national market.<sup>79</sup> In this context finance capital played a major role, through flows between

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<sup>72</sup> Black, 'Geography, political economy and the circulation of finance', pp. 375-76.

<sup>73</sup> Cameron, *Banking in the Early Stages of Industrialization*, p. 15.

<sup>74</sup> See for example Peter Mathias, *Transformation of England*, pp. 92-3.

<sup>75</sup> Pressnell, *Country Banking*, p. 79; Cameron, *Banking in the Early Stages of Industrialization*, p. 24, also claims that the demand for remittance facilities, especially on London was the main reason country banks emerged, not unsurprisingly given his dependence upon Pressnell's work.

<sup>76</sup> Kerridge, *Trade and Banking*, pp. 5-6, 33-34.

<sup>77</sup> Black, 'The London Agency System', p. 112.

<sup>78</sup> Flandereau et al, 'The bell jar', pp. 161-208, use this analogy in relation to the European economy, but it applies equally within a national economy.

<sup>79</sup> Black, 'Geography, political economy and the circulation of finance capital', pp. 368-9. He refers to this as the Langton-Gregory debate.

'agricultural and industrial regions' which created 'a definite spatial interdependence between regions as finance capital switched from surplus (agricultural) to deficit (industrial) regions'.<sup>80</sup> In particular, flows of capital moved through London to Leeds, Manchester, Newcastle, Whitehaven and Carlisle, implying that these provincial centres did not 'subsume the full range of commercial and social infrastructures that some people have implied'.<sup>81</sup> The flow of bills through the Smiths' banks provides a more specific example of such an inter-regional flow of money between industrialising regions and rural areas with higher savings.<sup>82</sup>

While Black's work comes closest to demonstrating that the banking system actually did transfer money through London between different regions, the evidence is not clear-cut. Pressnell has argued that there are question marks regarding how well this link worked in practice. The history of the Smiths' partnerships suggests that the possibility at least has to be entertained that substantial amounts of the money remitted to London became 'stuck' there.<sup>83</sup> Other evidence indicating this possibility can be found in Chapman, who highlighted the requirement of Dutch lending to the UK in order for London merchants to be able to finance the long-term credit required for overseas trade.<sup>84</sup> That provincial money should fulfil a similar role would seem likely, especially as Dutch capital was withdrawn from England from 1780 onwards.<sup>85</sup> The possibility that provincial money was financing London based activity is also suggested by Thomas Richardson, the largest bill broker of London. He described the role of the London agent bank as 'in the first place to procure money for country bankers on Bills when they have occasion to borrow on discount, which is not often the case; and in the next place to lend the money for the country bankers on Bills on discount'. He believed that the sums borrowed by banks were 50 times the size of those lent out by banks.<sup>86</sup> A similar picture also emerges in the case of Lloyds bank in Birmingham, where Sayers has estimated that a quarter of the resources of Taylor & Lloyds were used to purchase London bills over the last quarter of the eighteenth century. If other banks in Birmingham were operating in a similar manner, then the total invested annually in this manner would be around £100,000, despite Birmingham being at this stage a rapidly growing industrial town.<sup>87</sup>

Despite London's financial significance, actually drawing on, or remitting money to the capital was not straightforward at the beginning of the century. The difficulties of remitting funds throughout the country were commonplace in the early modern economy. Moving specie by road risked falling foul of highwaymen, while movements by sea risked loss by

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<sup>80</sup> Ibid., pp. 367-8. The role of money here is examined in the broader context of whether industrialisation led to homogenisation between regions, or if it exacerbated earlier differentiation.

<sup>81</sup> Ibid., p. 377.

<sup>82</sup> Black, 'The London Agency System', pp. 123-27.

<sup>83</sup> Pressnell, 'Family Bankers', pp. 93-4.

<sup>84</sup> Chapman, *Merchant Banking*, pp. 1-9.

<sup>85</sup> Wright, 'The contribution of overseas savings to the funded national debt of Great Britain', pp. 671-73.

<sup>86</sup> Richardson, 'The Rise of the Bill Brokers', in Anderson and Cottrell, *Money and banking in England*, p. 206.

<sup>87</sup> Sayers, *Lloyds Bank*, pp. 180-81.



shipwreck.<sup>88</sup> From at least the mid-seventeenth century, major landowners and traders needed to find ways to move their money through the country, and that this was by no means straightforward. This led initially to the emergence of a 'return', 'an arrangement by which a claim to money payable in London was transferred to a representative of the landowner in London', which has been described as a simplified, less formal version of the inland bill.<sup>89</sup> By the first half of the eighteenth century, the inland bill was fully established and merchants were also becoming an important feature of this payment network. Sampson Lloyd of Birmingham employed John Pocock, a corn and iron merchant of Queenhithe to handle his bill transactions through London in the 1730s.<sup>90</sup> Similarly the Goldney family of Bristol used the Quaker merchants Joseph and Thomas Ingram to handle their business in the capital in the 1740s.<sup>91</sup> In both instances the London merchants were acting as quasi-bankers. Indeed it has been suggested that every tenth trader in England in this period acted in the capacity of a retailer or a retailer of cash.<sup>92</sup>

Certain employment groups that featured as remitters prior to the establishment of banks became partners in new provincial banking ventures. Great significance has been attached to the drovers and tax remitters with regular contact with London and who consequently were used to move money between country and capital, principally through the medium of the bill on London, from the late seventeenth century.<sup>93</sup> Drovers were useful remitters, but but also slow and risky: one large family of drovers went bankrupt in 1678 owing £30,000.<sup>94</sup> £30,000.<sup>94</sup> The most commonly cited examples of drovers becoming bankers are two Welsh banks: the Black Ox at Llandovery and the Black Sheep Bank at Aberystwyth.<sup>95</sup> However it has also been convincingly stated that these were both relatively late formations and, combined with their relatively small scale and the lowly status of the Smithfield bankers in London, their importance should not be overstated.<sup>96</sup> Tax remitters enjoyed a considerable advantage as bankers because they were capable of 'borrowing money on discount at the public expense, thereby expanding their local cash reserves'. If none of a bank's partners was the local remitter, then convincing the collector to use the bank might achieve the same end.<sup>97</sup> This occurred in Newcastle, where the collector of the excise was persuaded by the bank of Carr, Airey & Co to accept their notes and pay cash for them, which had the added benefit of convincing people of the sound status of the firm.<sup>98</sup>

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<sup>88</sup> The activities of highwaymen appear to attract the excitement of historians and references to the difficulties they posed are frequent. Some examples include: Phillips, *History of Banks, Bankers and Banking*, pp. 27-8; Wilfred Prest, *The Professions in Early Modern England* (London, 1987), p. 173.

<sup>89</sup> Margaret Gay Davies, 'Country Gentry and Payments to London, 1650-1714', *ECHR* 24 (1971), 15-22, 27.

<sup>90</sup> Lloyd, *The Quaker Lloyds*, pp. 163-4.

<sup>91</sup> P.K. Stemberge, *The Goldney Family: A Bristol Merchant Dynasty* (Bristol, 1998), pp. 64-5.

<sup>92</sup> Lloyd, *Quaker Lloyds*, p. 162.

<sup>93</sup> Nevin and Davis, *Clearing Banks*, pp. 34-5.

<sup>94</sup> Prest, *Professions in Early Modern England*, pp. 173-4; Davies, 'Country Gentry and Payments to London', pp. 24-7.

<sup>95</sup> For the background on these banks see Francis Green, 'Early Banks in West Wales', *Transactions of the Historical Society of West Wales* 6 (1916), pp. 130-1, 134-5, 139-143.

<sup>96</sup> Pressnell, *Country Banking*, pp. 48-9.

<sup>97</sup> Nevin and Davis, *Clearing Banks*, pp. 35-6; Pressnell, 'Public Monies and the Development of English Banking', pp. 382-3.

<sup>98</sup> Phillips, *History of Banks, Bankers and Banking*, p. 25.

The second advantage was the use of collected taxes as bank deposits, which could provide a cushion for the bank to protect from runs.<sup>99</sup> In contrast, the difficulty of attorneys in moving significant sums of money made it more challenging for them to develop into bankers on a standalone basis, despite their local role in providing financial services.<sup>100</sup>

Two reasons exist for regarding the tie to a London agent as the most important feature of provincial banks. Firstly, many customers of provincial banks needed a London link, as most bills in this period were drawn on London, as well as for accessing the capital markets. The second was that the London agent could provide the bank with an outlet for surplus funds, or a source of funds in times of scarcity.<sup>101</sup> Iain Black's research has shown that the link to London through an agency system was essential to a bank's viability, and was often the first business that a new establishment would attend to. While in the case of Lambton's bank, the main source of profit was local business rather than the remittance business, it was ultimately the remittance business that made the bank viable.<sup>102</sup> While the importance of the London agent is frequently acknowledged, most studies of the relationship between country banker and London bank agent have been written from the perspective of the provincial bank and relatively little is known about the agency houses in London.<sup>103</sup>

The key features of the agency system were already in place by the 1772-3 financial crisis, as it was transmitted nationally through the banking system.<sup>104</sup> By 1780, the expanding numbers of country bankers had spurred the development on a large scale of the London agency banks.<sup>105</sup> By the end of the century there was a clear leading group of agency houses. Table 5 shows Black's data for 1802, drawn from the Post Office directory of that year, together with some attempts to draw this back to the 1790s, both of which indicate the degree to which the agency business rapidly consolidated into the hands of a number of leading firms. When comparing the information for 1790 and 1802, the overall rankings of the principal agency banks in London changes only minimally. The key points are that it shows that the Post Office data underestimated the extent of the provincial banking and how quickly the agency business had consolidated in London. While some West End banks had a limited country connection, this was never substantial: in 1797, 17 London banks had no country links, all of which were located in the West End.<sup>106</sup> Within the City banks, it was generally the newer banks that exploited this opportunity, which required specialist commercial knowledge and a tolerance for new risk.<sup>107</sup> Esdaile's Bank was founded in 1781,

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<sup>99</sup> Pressnell, *Country Banking*, p. 235.

<sup>100</sup> Miles, 'The money market in the early industrial revolution', pp. 130-32.

<sup>101</sup> Nevin and Davis, *Clearing Banks*, p. 37; Michie, 'The City of London as a Centre for International Banking', pp. 16-19; Pressnell, *Country Banking*, chapter 14; K.J. Lampard, 'Cobb & Son, bankers of Margate c. 1785 to c.1840', unpublished PhD thesis (University of Kent, Canterbury, 1986), pp. 129-36.

<sup>102</sup> Black, 'Geography, political economy and the circulation of finance capital', p. 375.

<sup>103</sup> Most notably this applies to Pressnell's *Country Banking*.

<sup>104</sup> Hoppit, 'Financial crises', pp. 52-4.

<sup>105</sup> Black, 'The London Agency System', pp. 114-7; Nevin and Davis, *Clearing Banks*, p. 38; Joslin, 'London Private Bankers', pp. 183-4, dates this to between 1770 and 1780.

<sup>106</sup> Joslin, 'London Private Bankers', p. 183. These included Drummond, Devaynes, Hoare and Wright.

<sup>107</sup> *Ibid.*, pp. 183-4.

while Robarts emerged as late as 1792.<sup>108</sup> A number of significant agency banks originated from provincial banking houses. Most famously, this group included Smith, Payne & Smith, but one can add the examples of Jones, Loyd & Co. (originally of Manchester); Messrs Forster, Lubbock & Co (Truro Bank, Cornwall); the short-lived Halliday, Duntze, Praed & Co (Exeter, although Halliday had previously been a banker in Lombard Street); and eventually Praed & Co (Cornwall again). Hanbury, Taylor, Lloyd & Co was established to handle the business of the Birmingham Lloyds bank, but unlike some of the others did not become a significant agency house.<sup>109</sup>

<b>London Bank</b>	<b>No. of Country Correspondents 1802</b>	<b>No. of Country Correspondents c. 1793</b>
Esdaile & Co.	39	44
Robarts & Co.	26	23
Forster, Lubbock & Co.	22	23
Down, Thornton & Co.	19	21
Harrisons & Co.	18	21
Barclays & Co.	16	18
Masterman, Peters & Co.	14	17
Boldero, Lushington & Co.	12	9
Wilkes & Co.	12	9
Glyn, Mills & Co.	9	11
Veres, Lucadon & Co.	9	12
Williams, Deacon's & Co.	9	8

**Table 5: Leading London agency houses in 1793 and 1802 (Source: for 1802 see Black, 'London agency system', p. 116; data for 1793 derived from Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*)**

The eighteenth-century history of the principal City agency houses remains remarkably shrouded. Historians of Barclays have tended not to examine the early agency business in detail.<sup>110</sup> Equally the record of Glyn & Co's emergence as an agency bank remains obscure, partly due to the loss of this firm's relevant records. Before 1797, they were barely engaged in this business, acting perhaps for only 3 to 4 country banks. In the early 1800s, this figure was rapidly expanded to over 40.<sup>111</sup> Equally for Smith, Payne & Smith, little detail surrounding its agency business is known. The bank in 1798 operated twelve agencies (not including the Smith family banks), of which three were Scottish. Most of the little remaining information provided by Leighton-Boyce refers to the 1810-25 period.<sup>112</sup> The early history of the five leading agency houses that had emerged by the beginning of the nineteenth century is even less well known.

Some attempt to document the early history of Esdaile & Co, the leading agency firm at the time, was made by Lampard in his study of the Margate Bank. Its founders, Sir James Esdaile and Sir Benjamin Hammet were already men of substance when they established

<sup>108</sup> Hilton Price, *Handbook of London Bankers*, pp. 57-8, 142-3. The foundation date for Robarts does appear to be slightly too late given the extent of its correspondent network in the 1790s.

<sup>109</sup> Pressnell, *Country Banking*, pp. 105-8.

<sup>110</sup> Ackrill and Hannah, *Barclays, The Business of Banking*, *passim*.

<sup>111</sup> Fulford, *Glyn's: 1753-1953*, pp. 95-6.

<sup>112</sup> Leighton-Boyce, *Smiths the Bankers*, pp. 109-22.

the bank in 1781. Esdaile was descended from French Huguenots, who had made their fortune supplying clothing to the army. Hammet was his son-in-law, a man of property in Carmarthenshire who also had a controlling share in a substantial works for the manufacture of tin plate. The bank expanded in 1792 through an amalgamation with Smith, Wright & Co. The management of the bank was left in the hands of William Esdaile, fourth son of Sir James, who had been given a “commercial education” and had served as a clerk at Ladbroke & Co. However little else is known of this bank in its early years, or indeed for most of its history until its failure in 1837, apart from its prominence in the agency business.<sup>113</sup> What this short description does indicate is that there was nothing unusual in the background of this bank at its formation, which might have explained its rise as an agency house.

A key service provided by these London agency banks was the handling of the provincial correspondents’ remittances and as such they became an essential part of the nation’s payment network. The process for administering these payments can be summarised in the following manner.<sup>114</sup> A provincial bank would discount bills in their locality, which would form part of that bank’s bill book. If the bill was due to be paid in the vicinity of the provincial bank, it would hold the bill at the bank’s office. If however payment was due elsewhere, the bill would be dispatched to the London agent. Given that the immediate catchment area of the bank was generally limited, this meant that the majority of a provincial bank’s bills were sent to London. The London agent would receive these, but would only enter them to credit of the provincial bank’s account when the bill was past due. As a partner in Forster, Lubbock & Co explained to the Truro bank, provincial banks therefore needed to keep two accounts with their London bankers. In one of these, the general account, all bills remitted to and drafts made on the London house would be entered. However he added:

but as by this methods I should never know whether the London Bank was in advances or in Cash for the Truro Bank, I keep a Cash Acct. besides in which your drafts are carried to the Debit of said Account only as they are Paid & your Rem[ittan]ces to the Credit of it as they are rec[eive]d.<sup>115</sup>

Thus the London bank would generally have a substantial number of bills due for the provincial banks that were not noted in its cash books. If the country bank was overdrawn with its London agent, these bills not yet due could be used as security (the London agent secures a lien on these bills). This step for example was taken by Esdaile & Co when the Margate Bank overdraw its account with them in 1797.<sup>116</sup>

It should be clear therefore that not all bills remitted were discounted by the London bank. Discounting might be carried out by the London agent himself or elsewhere in the London market and appears to have been done at the London bank’s discretion. Esdaile explained

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<sup>113</sup> Lampard, ‘Cobb & Son, bankers of Margate’, pp. 113-28. Hammet was also involved from 1791 in a country bank in Somerset. Esdaile’s position at its failure is covered on pp. 121-3.

<sup>114</sup> Aside from the Lubbock correspondence (see below, p. 122), this explanation is based upon Lampard, ‘Cobb & Son, bankers of Margate’, pp. 140-43; Pressnell, *Country Banking*, pp. 75-84.

<sup>115</sup> KHAC, EK-U1979/B2, Messrs Lemon & Co. to James Willyams, 10 Oct 1771.

<sup>116</sup> Lampard, ‘Cobb & Son, bankers of Margate’, pp. 140-3.

to the Margate Bank that: 'The reason why those bills you mentioned were not discounted, we generally take those that come first in our Bill Book.'<sup>117</sup> Discounting was generally carried out to cover any cash flow issues experienced by the provincial bank. Again Esdaile notified the Margate bank that 'we have debited you with us for being under a thousand pounds according to agreement which has been the case notwithstanding the Bills we have from time to time discounted'.<sup>118</sup> The Margate Bank had an agreement to maintain a balance of £1,000 interest free with their London agent and was now being charged interest for failing to do so. This was despite Esdaile's attempts to maintain the balance by discounting bills it had received. Discounting a country bank's note also increased the London agent's exposure to the country bank: in May 1787, Esdaile noted that it had discounted £8,200 of the Margate Bank's paper, which together with the outstanding balance of £6,000 meant that there effective advance to the bank was £14,200.<sup>119</sup>

A successful relationship with the London agent therefore required careful management and supervision to avoid placing unnecessary strains on either side.<sup>120</sup> Pressnell believed that the London account was 'probably the best-managed part of a country banker's business'.<sup>121</sup> To maintain accurate balances of these accounts therefore required a substantial volume of correspondence between City bank and their correspondents. The most basic task was to keep the London agents abreast of the extent of drawings and remittals. Barings, Short and Collyns reported regularly (probably weekly) to Goslings about the scale of both their remittals and drafts, for example, on the 18 January they wrote 'we remit 36 Bills £1,480.7.10 and have drawn £1,089.17.0' on the London house. Another letter indicates the remittance of £2,997.10.7 of bills by the Exeter bank and the drawing of £1258.4.8.<sup>122</sup> This is very similar to the nature of the correspondence between Esdaile and the Margate bank, where the vast majority of the letters (there was on average one every two days) cover routine business, including drafts payable, remittances received and bills returned due to non-payment.<sup>123</sup> This is equally true of the correspondence between Messrs Lemon & Co and the Truro Bank.<sup>124</sup> Other mundane tasks could also be carried out by the London agent. The Devonshire bank used Goslings as a place for the receipt of interest on securities for its Exeter clients; it contains a number of requests to collect interest due on securities or to affect the purchase of new securities.<sup>125</sup> The London bank could also use Goslings for the purchase or sale of securities on behalf of clients: one letter

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<sup>117</sup> KHAC, EK-U1453/B3/14/7, Esdaile to Cobb & Son, 29 March 1787.

<sup>118</sup> Ibid., 7 April 1787.

<sup>119</sup> Ibid., Esdaile to Cobb & Son, 14 May 1787.

<sup>120</sup> Nevin and Davis, *Clearing Banks*, pp. 38-9.

<sup>121</sup> Pressnell, *Country Banking*, p. 116.

<sup>122</sup> BGA, G&S, 0131/0999, Barings, Short & Collyns to Messrs Gosling, 4 January, 18 January 1796 and 12 January 1796.

<sup>123</sup> KHAC, EK-U1453/B3/14/7, see most of the letters from January through to March 1787 for examples; Lampard, 'Cobb & Son, bankers of Margate', pp. 129-30.

<sup>124</sup> See below, chapter 5.

<sup>125</sup> BGA, G&S, 0131/0999, Barings, Short & Collyns to Messrs Gosling 18 January 1796. See also a similar letter 9 January 1799.

requested they acquire another £250 stock for Hugh Myddelton, who already had £6,750.<sup>126</sup>

The volume of business conducted by the London agency bank was heavily dependent on the size of the provincial bank, as can be seen in the case of Goslings' agency business. Goslings was not a first-rank London agency house, however its business is sufficient to allow some interesting analysis to be undertaken. Between 1787 and 1788 Goslings held the agency of seven banks: Barings, Short & Hogg (of Exeter); Cross, Son, Hutchison & James; Ellison, Cooke, Childers & Swann (Doncaster); William Symonds; the Swansea Bank; John Lacey and finally Twining, Twining & Mills (Colchester).<sup>127</sup> Of these, the most important in terms of size, by some considerable distance was that of Barings, Short & Hogg. This was the Devonshire Bank of Exeter which also had a London agency with Francis Barings in London. Pressnell speculated that Goslings gained this agency business through Sir Francis Baring's connections to the East India Company, to which we have seen that Francis Gosling also had close ties.<sup>128</sup> The name of Twining is also very recognisable: this was the Colchester and Essex bank established by John Mills, which was formed in 1787. The London tea merchants were associated with this house, however their relationship was unusual, for the partnership indemnified them against any losses, while all profits from the bank accrued to John Mills. In 1797 the London tea house completely separated its links with this bank and it became Mills & Co, continuing in business until 1892, when it merged with Lloyds.<sup>129</sup>

From the 1794 accounts, one can see that the Devonshire Bank held £6,375 of cash with Goslings, compared to £3,438 deposited by Twining & Mills and £1,500 by Messrs Ellison & Company.<sup>130</sup> The actual balance of the country banker could obviously fluctuate over the year, and the Devonshire bank was not always a source of cash to Goslings. Although Barings & Co would normally maintain a credit balance on their account in January 1788 and February 1789, small debit balances occurred, presumably reflecting the seasonality in the Devonshire Bank's business (Figure 11).<sup>131</sup> In January 1796, Barings, Short & Collyns credited Goslings with £10.19.0, being 20 days interest on £4,000. This correspondence goes on to say that they wish Goslings to allow them to draw up to £5,000, for which Goslings should either charge interest or credit by use of bills in the bank's hands for the same amount, as they feel appropriate.<sup>132</sup> Given that in the previous month, interest had been charged, it would appear that this was the bank's preferred method of payment.

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<sup>126</sup> BGA, G&S, 0131/0999, Barings, Short & Collyns to Messrs Gosling 12 January 1796.

<sup>127</sup> BGA, G&S, 0130/0691.

<sup>128</sup> Pressnell, *Country Banking*, pp. 336-7. Curiously, John Baring's other bank at Plymouth drew on Hoare, Barnett & Co, see Margaret Dawes and C.N. Ward-Perkins, *Country Banks of England and Wales, Private and Provincial Banks and Bankers, 1688-1953*, vol. 2 (Suffolk, 2000), pp. 465-66.

<sup>129</sup> Stephen H. Twining, *The House of Twining 1706-1956, being a short history of the Firm of R. Twining and Co. Ltd, tea and coffee merchants, 216 Strand London WC2* (London, 1956), pp. 59-60.

<sup>130</sup> BGA, G&S, 0130/0716.

<sup>131</sup> BGA, G&S, 0130/0691, 0130/0692.

<sup>132</sup> BGA, G&S, 0131/0999, Barings, Short & Collyns to Messrs Gosling, 4 January 1796; for the payment of the London agent, see Pressnell, pp. 401-15.

However the balance of the accounts is only part of the picture and the turnover of the accounts was at least as important. The volume of business on account could be substantial. Letters indicate that between 4 and the 18 January 1796 Barings' account remitted around £6,800 to Goslings and drew on the London bank for about £5,500.<sup>133</sup> From 1787 to 1789, this account was turning over between £50,000 and £80,000 per month (Fig. 10). This part of the business required considerable attention and supervision by the partners, as indicated by the surviving correspondence between the firms.

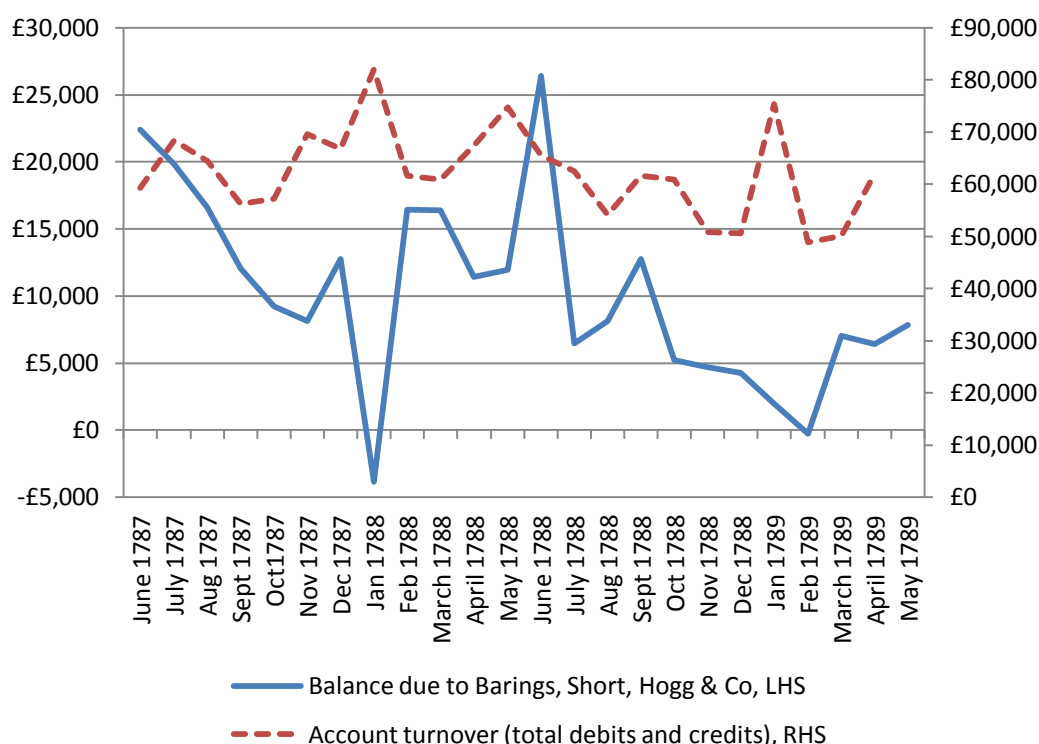


Figure 11: Account of Barings, Short, Hogg & Co with Goslings, 1781-1789 (Source: BGA, 0130/0691-0692)

Barings, Short, Hogg & Co also maintained an account with Francis Baring & Co. John Baring was titular head of both Exeter and London merchant houses, but his interests appear to have been in his estates and the country banks he helped to establish in Plymouth and then Exeter (the Devonshire Bank in 1770). To undertake this business they used Francis Baring as their London agent.<sup>134</sup> The ledgers for the period 1781-97 show that in general the bank of Baring, Jackson, Short & Co was a useful source of cash to Francis Baring's London merchant firm. Their balance was only negative in one year (1784). On average through to 1796, the bank left £20,000 on deposit with Francis Baring, with excess balances generally larger in the 1780s than the 1790s. In certain years this could represent up to 18% of the firm's total liabilities, although the average was about 8% for the period 1781-1795.<sup>135</sup>

<sup>133</sup> BGA, G&S, 0131/0999, Barings, Short & Collyns to Messrs Gosling, 4, 9, 12 and 18 January 1796.

<sup>134</sup> Ingram, *Notes towards a history of Baring Brothers*, pp. 21-3. This Exeter bank was Barings, Lee, Sellon & Green in 1770, becoming Barings, Jackson, Short & Co in 1774. By 1790 it was Barings, Short & Collyns. It closed in 1801. See Dawes and Ward-Perkins, *Country Banks*, vol. 2, p. 219.

<sup>135</sup> Baring, HCOS, ff. 1-17.

The other significant account for Goslings from a volume perspective was that of Ellison & Co of Doncaster. In the month of June 1787, Ellison & Co drew on the bank for £11,597 and deposited some £15,164.<sup>136</sup> The impression one gets from this data is that the business was relatively steady, turning over on average £30,000, while providing in most cases a balance in favour of Goslings of £10,000. Even the smallest account, Twining & Mills, drew on Goslings for the not insubstantial sum of £51,940 for the period 22 November 1787 to the 28 June 1788, and deposited £54,256 with the bank.<sup>137</sup>



Figure 12: Account of Messrs Ellison & Co with Goslings, 1787-1789 (Source: BGA, 0130/0691-0692)

For the latter stages of the century, good data is also available for the bank of Cobb & Son of Margate. Lampard's analysis shows an awareness of the importance of Esdaile & Co to Cobb & Son, in particular in connecting the Margate bank to a national and international payment network.<sup>138</sup> He speculates that the connection to Esdaile's was established via the Chippendales, who were the largest coopers in London.<sup>139</sup> The monthly balance of this account is given in Figure 13.

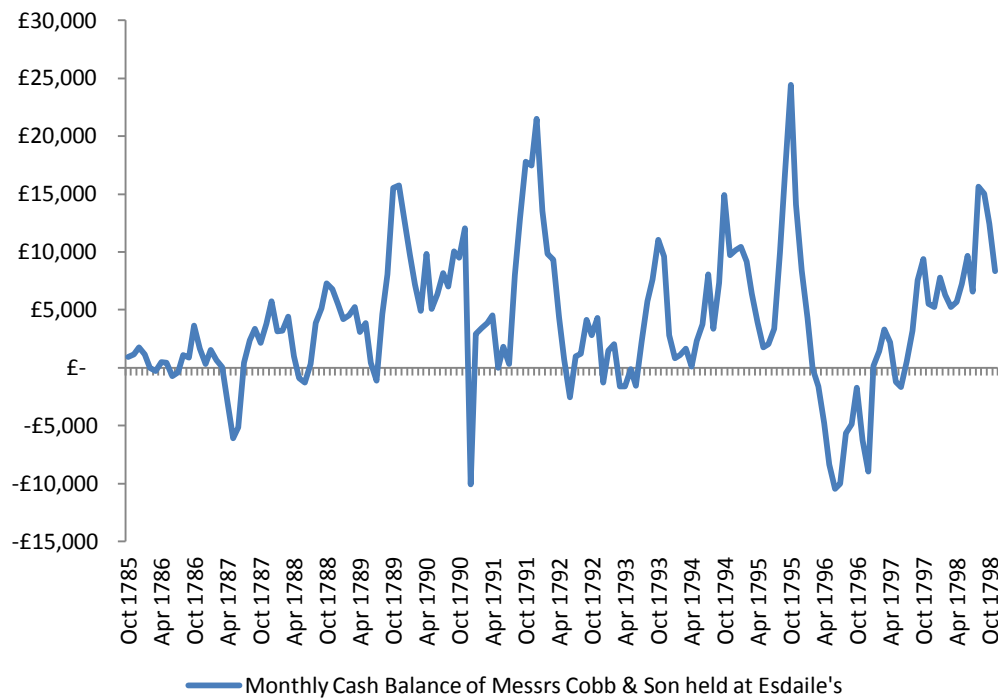
<sup>136</sup> BGA, G&S, 0130/0691, pp.225-230.

<sup>137</sup> BGA, G&S, 0130/0691, pp. 400-2, 407, 143, 367. Annualised this would equate to about £89,000 and £93,000 respectively.

<sup>138</sup> Lampard, 'Cobb & Son, bankers of Margate', pp. 87-100 and chapter 3, especially p. 133-139, 143-45.

<sup>139</sup> Ibid., p. 139. Sir James Esdaile was a member of the Coopers' Company, although he never practiced the trade.





**Figure 13: Balance of the Margate Bank with Esdaile & Co., October 1785 to November 1798 (Source: KHAC, EK-U1453/B3/11/1-14)**

There was a noticeable seasonal pattern to this account: the Margate Bank's cash reserves tended to be highest from August to October, and lowest in May or June.<sup>140</sup> The cash balances were rarely negative; when they did turn negative, it can be readily explained. In the first half of 1787, the bank had got itself into some trouble through some injudicious discounting of bills drawn by Rush & Tolson and Hague, which were of real concern to Esdaile's.<sup>141</sup> The other two occasions can be more clearly attributed to the broader economic environment in the crisis years of 1793 and especially in 1797. However Lampard was much less interested in the volume of business being put through this account. Over the period October 1785 to November 1798, the bank remitted around £1.7 million to London, or just around £131,000 per annum.<sup>142</sup> Moreover it can be seen that the business of the bank passing through London was growing steadily over this period. This can be seen in Figure 14, which shows the rolling 12 month remittals and drafts of the bank with its London agent.<sup>143</sup> After correcting the problems of the 1787 episode, it can be seen that bank managed to achieve a generally consistent growth in this business, which could well reflect the fortunes of its wider business.

<sup>140</sup> Ibid., pp. 148-151.

<sup>141</sup> Ibid., pp. 152-4.

<sup>142</sup> KHAC, EK-U1453/B3/11/1-14.

<sup>143</sup> Using the rolling 12 month periods evens out some of seasonality effects and makes the longer term underlying direction more apparent.

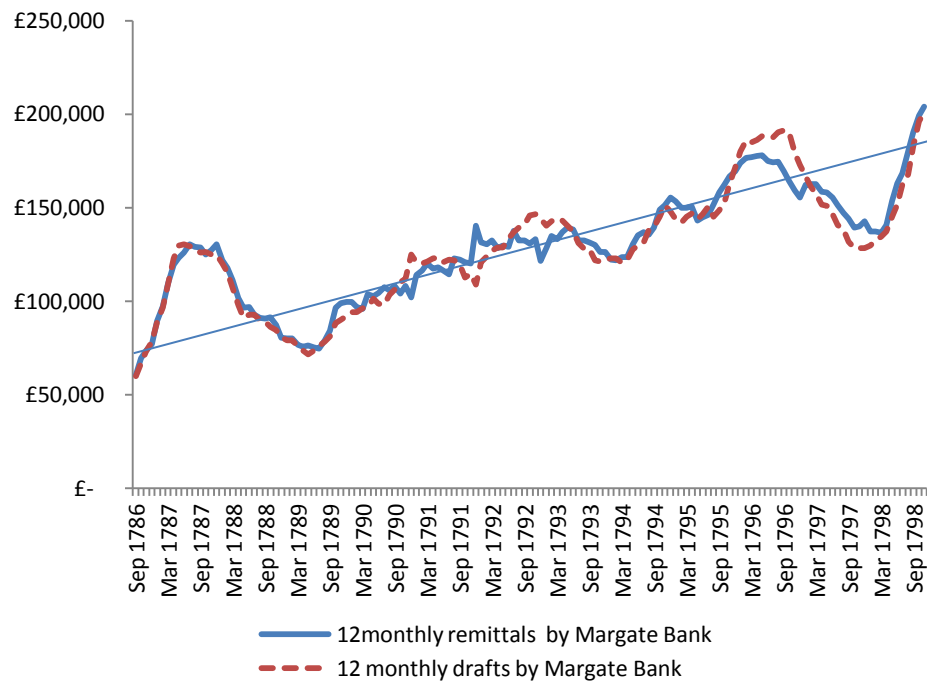


Figure 14: Rolling 12 month remittals to and drafts on Esdaile & Co by the Margate Bank (Source: KHAC, EK-U1453/B3/11/1-14)

Comparable figures for other banks are not common, however some data is available. It is known that the Smiths of Nottingham's turnover with their London agent was on average £228,000 in 1756-7, and growing rapidly. In the period January to May 1758, turnover was £148,600 (£356,640 annualised).<sup>144</sup> Leyland, Bullins & Co of Liverpool was remitting on average £652,500 to its London agent for 1808-10.<sup>145</sup> From these comparisons, it can be seen that the Margate bank was very much a small country bank. If one considers that Esdaile's had around 40 correspondent banks by the end of the century, it is possible to extrapolate that the bank was handling remittances worth a minimum of £5.2 million per year.<sup>146</sup> Equally, it can be suggested that the minimum remittances handled by London banks on behalf of their customers was in the region of £60 million per annum (450 banks).

#### IV

This chapter highlights the inexplicable neglect of the City banks in the early stages of English banking. Banks were deeply engaged within London's economy during this period. They were an important source of liquidity to the capital's merchants, traders and industrialists, while also facilitating international payments. In the introduction to this thesis it was argued that there is an inconsistency in the historical analysis between the performance of England's commercial economy and the supposed capacity of its banking system. City banks formed one of a number of specialised trades that helped to finance the commercial activities of the country's leading commercial centre. The second half of the

<sup>144</sup> Leighton-Boyce, *Smiths the Bankers*, pp. 50-1.

<sup>145</sup> Black 'The London Agency System', p. 124. This bank received some attention in Presnell's, *Country Banking*, however he did not discuss its remittances.

<sup>146</sup> This is based on an average remittance from the Margate bank of £130,000 per year, assuming 40 country banks of similar size.

chapter has focused on the reach of these banks, which extended far beyond London itself. They stood at the heart of the country's agency networks. Cameron's comment that provincial bankers were the most important part of the banking system is surely misguided, for without the London agents they could not have functioned in the manner they did. If the English banking system at the time was a body, then the core nucleus of agency banks in London represented that body's brain. This was not solely because of the financial services they provided to the provincial banks (which in themselves were indispensable), but also because these City bankers often provided a knowledge of banking practice that prevented newer provincial banks with limited experience from making crucial mistakes. Thus the City bankers also served as a core regulatory component of the banking system. Obviously they were still exposed to the risk of their correspondents indiscretions, however their attempts to manage the behaviour, while potentially restrictive to the country bank in question, could serve as a method of stabilising the system.

## Chapter 5: City Banking: Forster, Lubbock & Co

As has been suggested previously, the history of the London agency houses has been a subject inadequately studied by historians. What follows in this chapter is therefore an attempt to provide a more detailed examination of such an agency banks, through an examination of the early history of Forster, Lubbock & Co, the third most important of the London agency houses at the end of the century.<sup>1</sup> Despite its rapid rise and clear importance in London by the end of the eighteenth century, very little is known of the bank itself.<sup>2</sup> This must be attributed to the apparent loss of the bulk of the bank's records, both for the eighteenth and nineteenth centuries. A small collection of documents from the firm's early years do however survive, deposited in the Lubbock MSS in the Kent archives. The most significant surviving document of the bank is an out-letter book dated 1 October 1771 to 14 August 1773, which covers the initial formation of the London bank. The only problem with this book is that it is impossible to say exactly who wrote the letters, as signatures were not included on these copyletters. However they offer a valuable insight into the operations of the bank and its interaction with its clients.<sup>3</sup> This collection of documents forms the basis of the following chapter. It adds important detail on the activity of City banks, in the process reinforcing many of the themes of the previous two chapters. Furthermore it provides an opportunity to gain a rare insight into the process and challenges of establishing a new bank in the City.

In common with a number of the City agency banks, including Jones, Loyd & Co and Smith, Payne & Smith, Forster, Lubbock & Co's origins can be traced to a provincial banking company, in this instance the Miners Bank of Truro, Cornwall. The Miners Bank (Sir William Lemon Bart., Furley,<sup>4</sup> Lubbock, Willyams, & Co) was formed in January 1771, but may have dated back as early as 1759. As the name implies, it derived its business initially from the mining interests of the area, but soon expanded to include the business of county families, the leading commercial interest and local public institutions.<sup>5</sup> As was the case with a

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<sup>1</sup> See table above p. 113. For consistency, I refer to the London bank as Forster, Lubbock & Co, despite this name only emerging around 1800. The other principal names of the house were Sir William Lemon, Buller, Furley, Lubbock & Co at its foundation and Forster, Lubbock, Bosanquet & Co from 1785 to about 1800, with other minor name changes in between.

<sup>2</sup> Even for the period of the nineteenth century, a biography of a later Sir John Lubbock, Lord Avebury, largely manages to avoid dealing with the bank in which he was a partner. See Adrian Grant Duff, *The Life-Work of Lord Avebury (Sir John Lubbock) 1834-1913* (London, 1924), pp. 13, 51-3.

<sup>3</sup> Although it is impossible to say if this was the only out-letter book of this period, there are two reasons to believe it probably covers the majority of the bank's non-London customers. Firstly, the letters are written in date order and are not grouped by client, which implies that these were the only clients at that time. Secondly the index covers the full range of the alphabet, reducing the possibility that letters were grouped alphabetically.

<sup>4</sup> Furley is probably a modern spelling of this name; in the seventeenth and eighteenth century it appears to have been spelt Furly, the version used here.

<sup>5</sup> See John Orbell and Alison Turton, *British Banking: A guide to the Historical Records* (Aldershot, 2001), pp. 547-8; Dawes and Ward-Perkins, *Country Banks*, vol. 2, pp. 595-6; Philip W. Matthews, and Anthony W. Tuke, *History of Barclays Bank Limited* (London, 1926), pp. 264-8. The complete set of initial partners is thought to have included Francis Basset, John Rogers and Humphrey

number of firms from the South West of England in the second half of the eighteenth century, a London house was also established, in this instance under the title of Sir William Lemon, Buller, Furly, Lubbock & Co.<sup>6</sup> The London house was opened for business on 5 February 1772, as indicated by a letter to James Willyams Junior which explained that 'Your Friends Messrs Lemon & Buller were with me as they Attended yesterday at the Opening of our Bank'.<sup>7</sup> The initial agreement to form the London house had been drawn up by early October 1771, when John Buller has sent copies of the partnership agreement to London to be signed by the partners located there.<sup>8</sup> The evidence is not clear on the precise motivation of the partners for establishing the bank. A consideration of their background provides indications of their interests, as well as the personnel requirements of a successful banking venture in this period.

The senior partners in both establishments were John Buller and William Lemon, and both brought considerable status to the new undertaking. The two men were brothers-in-law, Lemon having married John Buller's eldest sister Jane, while Buller was married to Lemon's sister Anne.<sup>9</sup> Both families were also independently important, the Buller family having sat as Members of Parliament since the time of Queen Anne and acted as election managers for the Pelhams. John Buller's mother was a daughter of Earl Bathurst, while Buller himself became an MP for Exeter in 1768.<sup>10</sup> William Lemon's father, also William, is noted as having 'had very extensive mining and commercial concerns' in Cornwall. This William was created a baronet in May 1774 and also sat as an MP, first for Penryn, then for Cornwall.<sup>11</sup> Lemon was certainly involved in the Cornish mining industry and his move into banking was not unusual: there was a strong connection between tin-smelters, who were also financiers 'advancing money to the miners against tin bills they themselves issued as receipts for the tin left with them for smelting', and banking in Cornwall.<sup>12</sup> Having said this, the family does not feature prominently in any of the literature on the mining industry, while Lemon's exact role with the bank is also not clear.

There is a bit more clarity on Buller's role within the bank. Pressnell states that Buller was introduced to both partnerships to reform the existing Cornish bank in 1771 and to set up the new London house, while Sir John Lubbock permanently moved to London to manage

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Mackworth-Praed, who left shortly thereafter to form Praed & Co (the Cornish Bank), at which point Buller was introduced as a partner in the Truro Bank.

<sup>6</sup> See above, p. 112-3, for other agency houses that originated from provincial banks. The South West was also responsible for the emergence of a number of merchant banking houses in London, notably the Barings and Gibbs bank.

<sup>7</sup> For the initial style of the firm, see the front cover of the letterbook, KHAC, EK-U1979/B2; for the opening of the bank see KHAC, EK-U1979/B2 letter to James Willyams Junior, 6<sup>th</sup> February 1772. Similarly the plan to open the bank on that day can be found in KHAC, EK-U1979/B2, letter to John Buller, 11 January 1772.

<sup>8</sup> KHAC, EK-U1979/B2, letter to John Willyams Jr, 3 October 1771.

<sup>9</sup> *Debrett's Baronetage of England*, 7<sup>th</sup> edition (London, 1839), pp. 201, 240-1.

<sup>10</sup> Ian R. Christie, 'Private Patronage versus Government Influence: John Buller and the Contest for Control of Parliamentary Elections at Saltash, 1780-1790' *The English Historical Review* 71 (1956), pp. 249-50.

<sup>11</sup> *Debrett's Baronetage of England*, p. 201.

<sup>12</sup> D.B. Barton, *A History of Tin Mining and Smelting in Cornwall* (Marazion, 1967), pp. 19-22.

the house there in 1776.<sup>13</sup> From the surviving letterbook, the first part of this statement appears plausible. Buller regularly received letters in Cornwall and seems to have spent much of his time there, although as indicated in the extract above, he did visit the London house as well. Throughout the correspondence, Buller appears to be the more active of the two senior partners, and it is to him that the junior partners often looked for final guidance.<sup>14</sup> Pressnell's comments on Lubbock are however probably mistaken. The letters and circumstantial evidence indicate that Lubbock was in London prior to 1776 and in fact was never in Cornwall. It is known that Lubbock's family originated in Norwich and that he became a partner in a merchanting business in London with his father-in-law Frederick Commerell.<sup>15</sup> He also continued in business with one Mr Preston, as seen by these comments :

Having lately Commenced partnership in ye Banking business with Wm Lemon Esq of Truro Cornwall Jn Buller Esq, Member of Parliament for Exeter & Mr Jn Furly of this place [London] ... I thought it needful to give you this Notice for fear you should not know I was ye partner ... and if we can render you any Services here, or at Truro where we have a Bank ... I continue my Business as usual with Mr Preston, in which we are always at yr Service.

This letter was written because the bank wished to use Berte to pay any bills the bank had negotiated on Leghorn and on which the original payee had defaulted, 'to protect the Honour' of the bank.<sup>16</sup> Given these strong connections to the London financial and commercial world, it seems highly unlikely he would ever have been based in Cornwall. It is more plausible that Lubbock was, together with Furly, an active partner in the London bank who managed the business there from the outset. John Furly's precise background is less clear than Lubbock's, but again he appears to have been active in trade. He was a descendent of Benjamin Furly, originally of Colchester, but who emigrated to Holland around 1660 and became one of the leading merchants of Rotterdam.<sup>17</sup> This Benjamin's

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<sup>13</sup> Pressnell, *Country Banking*, pp. 107-9. This was based on information in Mathews and Tuke, *History of Barclays Bank*, p. 264.

<sup>14</sup> This judgement is partially impressionistic, however there are letters that refer to seeking Mr Buller's opinion in a way that cannot be said about Mr Lemon. See for example KHAC, EK-U1979, to James Willyams, 16 and 21 July 1772, or to John Buller himself 19 Nov 1771. It is not possible to comment on their engagement with the Truro bank.

<sup>15</sup> Robert Birkbeck, *Notes on the History and Genealogy of the Family of Lubbock* (London, 1891), pp. 7-8 and 28-30. Few records of this partnership of Commerell and Lubbock survive in the Kent Archive Centre, however KHAC, EK-U1979/B1/10 shows a proposal for admitting one Mr Tuckwell to this partnership. It indicates that the partnership employed a capital of about £20,000, so was a business of reasonable size.

<sup>16</sup> KHAC, EK-U1979/B2, to Francis Berte, 29 May 1772. The business with Preston appears to have been in insurance.

<sup>17</sup> Julius F. Sachse, Benjamin Furly and Symon Jansz Vettekeücken, 'Benjamin Furly', *The Pennsylvania Magazine of History and Biography* 19.3 (1895), p. 277-8; Henry Horwitz and James Oldham, 'John Locke, Lord Mansfield, and Arbitration during the Eighteenth Century', *The Historical Journal* 36.1 (1993), p. 139; Charles R. Simpson, 'Benjamin Furly, Quaker Merchant, and his Statesmen Friends' *Journal of the Friends', Historical Society* vol. XI (1914) pp. 62-73. He was certainly resident in Rotterdam in 1696, in 1696, but also appears to have been declared bankrupt in London in 1705, see H. R. French, "'Ingenious & Learned Gentlemen": Social Perceptions and Self-Fashioning among Parish Elites in Essex, 1680-1740', *Social History* 25.1 (2000), p. 59.

sons were Benjamin, John and Arent, the elder two both merchants, while he also had a daughter named Dorothy. The younger Benjamin, like his father, appears to have remained in Rotterdam, for he died there in 1738. John Furly is known to have been active both in Amsterdam and London and it is possible that he eventually moved permanently to London and was the original partner in the bank.<sup>18</sup> Thus, in common with many of the City banks to emerge in this period, the London end of the business was in the hands of two men from families with significant mercantile pedigree and commercial experience in their own right. Together the four partners of the bank therefore offered a useful combination of status, commercial expertise, and local knowledge of both London and the Cornwall economy, that was likely helpful in ensuring the bank's viability and later success.

The business over which they presided was initially small as judged by the number of customers outside of London. The index to the letterbook lists 71 distinct correspondents; however it is apparent that not all of these were clients of the bank, as some received only one or two letters, often in relation to a request by another client. Excluding recipients of three or fewer letters brings the total number of provincial customers down to 33 at this point. The index also provides details on the location of most of these clients, which has been summarised in Table 6.

Location	Number of customers	% of Total
Cornwall and Devon	11	33%
Bristol and Bewdley	5	15%
Other South England (mainly Norwich)	6	18%
Northern towns, inc Birmingham	7	21%
Unknown	4	12%
Total	33	

**Table 6: Non-London based customers of Messrs Lemon, Buller & Co, 1771-3 (Source: KHAC, EK-U1979/B2, index)**

Although there are clearly notable concentrations in certain regions, it is apparent that the bank's connections were quite widespread. Given the partners' connection to Truro, the region of the South West is unsurprisingly well represented, with customers in Cornwall and Devon, especially Exeter. The Bristol merchants are also prominent, including important people of that town such as Ewbank & Co, Benjamin Loscombe, a banker in Bristol by 1774, and John Champion.<sup>19</sup> Other clients were distributed in identifiable clusters around the country: there are 3 entries for Norwich. There are also contacts in newer cities, including Leeds, Sunderland, Whitehaven and Birmingham. One notable correspondent from this list is Samuel Skey & Co: by 1782, Samuel Skey was involved in the banking in

<sup>18</sup> Sachse, Furly and Vettekeücken, 'Benjamin Furly', p. 296. They state that very little is known of this John, and give no date of birth. It is possible that he is the banker, although he would have been old by this point: Benjamin was born in 1681, while Dorothy was born in 1710. There is therefore potentially a generation in between. Dorothy provided a key connection between the Rotterdam merchants and the bank, see below, p. 125.

<sup>19</sup> Benjamin Loscombe was a partner in Peach & Co, which existed by 1774 to 1781, then operated as a banker by himself for another two years, failing in 1783, see Dawes and Ward-Perkins, *Country Banks*, vol .2, pp. 102-3.

Bewdley, Worcestershire, with Forster, Lubbock & Co as their agent.<sup>20</sup> Finally, although none were regular contacts and therefore do not appear in the above table, this index shows the existence of an international network covering Amsterdam, Barcelona, Verona, Ghent and Leghorn.<sup>21</sup> This analysis demonstrates that the core of a new bank's customers was clustered around the original home locality of the partners. However to function effectively, the network of correspondents needed to be reasonably broad and new business could be acquired almost anywhere in the country. The experience of this bank is also in contrast to Sayers' opinion of London banks rarely doing business for provincial firms.<sup>22</sup> Instead it suggests that the engagement in this type of business was very much at the discretion of the partners and may have varied considerably from bank to bank. Indeed there is no reason why a bank that engaged as an agent for country banks should not wish to carry out the London business of a large provincial firm, presuming the volume of business was adequate.

The principal correspondent by number of letters received was James Willyams. His father was John Willyams of Carnanton, who as well as being a customer of the London bank, was probably related to Sir William Lemon.<sup>23</sup> James Willyams was a partner in the Truro bank, and probably managed the business in Cornwall on a day-to-day basis.<sup>24</sup> From 1777 to 1785, he was also apparently a partner in the London house.<sup>25</sup> The letters he received, covering the opening of the London house, are particularly informative in providing an insight into the way the business between the two connected houses was to be managed. The first point that becomes readily apparent is that the London operation was acting as the agent of the Truro bank before the articles of partnership were formally signed and the bank opened. Letters from October 1771 through to February 1772 shows that they were already accepting remittances and paying drafts of the Truro Bank at this point.<sup>26</sup> Clearly there were difficulties that needed to be addressed at this stage. For example cheques that were due for payment in Cornwall found their way to London, which had the potential to cause difficulties for the London house and which were therefore important to iron out.<sup>27</sup> Other suggestions for the simpler running of the London account was that Willyams should add the Christian names to all bills mentioned in letters, so that the London house would

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<sup>20</sup> See Dawes and Ward-Perkins, *Country Banks*, pp. 50-1; Crick, and Wadsworth, *A Hundred Years of Joint-Stock Banking*, pp. 46-7. Skey was in partnership as a banker with the attorney Wilson Roberts until 1790, when he set himself up independently. He had been apprenticed to a grocer and drysalter, going on to build a large works and to make a fortune through manufacturing sulphuric and nitric acid, as well as brass and pewter ware. In 1821 the bank had a capital of £21,000.

<sup>21</sup> KHAC, EK-U1979/B2, Letter Book of Lubbock Forster & Co, 1771-3, index.

<sup>22</sup> Sayers, *Lloyds Bank*, pp. 89-91.

<sup>23</sup> *Debrett's Baronetage of England*, p. 201. Sir William Lemon's father was married to Anne, daughter of a John Willyams of Carnanton. If there was no generational gap, then the John Willyams in this correspondence would be Sir William Lemon's grand-father, however given the ages implied, it is more likely that he was an uncle or cousin.

<sup>24</sup> Dawes and Ward-Perkins, *Country Banks*, p. 596.

<sup>25</sup> KHAC, EK-U1979/B8/1. From this he may he have replaced Buller's position in the London partnership.

<sup>26</sup> See for example KHAC, EK-U1979/B2, letters to James Willyams on 1 Oct, 26 Nov 1771. There are many other instances.

<sup>27</sup> KHAC, EK-U1979/B2, to James Willyams, 19 Nov 1771, 23 Nov 1771.



be clear to whom these bills referred.<sup>28</sup> Other issues addressed included simple administrative tasks, such as getting cheques for both banks printed.<sup>29</sup> Equally there was a degree of caution at this early stage. The London house was reluctant to take on any new customers in London until both Lemon and Buller had arrived in the capital.<sup>30</sup> This highlights that the senior partners' did not just lend their names to the firm, but were genuinely engaged with the business, particularly perhaps in the management of client relationships. However there was also recognition on the part of the London bank that they could not afford to keep their new clients waiting too long as was explained to John Buller:

those Friends who intend opening accounts with us are very desirous to know when we intend to begin that I beg the Fav'r to know whether the 1<sup>st</sup> February w[oul]d Suite Mr Lemon & You & whether you would permit me to fix it for that Day.<sup>31</sup>

This point illustrates some of the practical difficulties of maintaining banks based on interlocking partnerships. Most importantly, it highlights the degree of trust and confidence that needed to be placed in the people actually operating the various branches for this approach to be successful. It may form part of the explanation as to why interlocking partnerships appeared so rarely. By way of comparison, the Smiths, despite being covered by one partnership agreement, managed the London branch independently under the direction of John Payne and then Robert Smith.<sup>32</sup>

Because the banks were closely connected, it was possible to discuss business matters in a way that would not have appeared if the Truro bank had been a standard customer of the London bank. Thus beyond fixing administrative difficulties, discussions on the appropriate approaches to the conduct of the banking business also appear in the letters. For example there was a clear emphasis that loans should be charged at 5%: 'I by no means approve of advancing Mon[e]y at only 4% p. ann. For the reason you mention if we do to one we must to all & advancing under 5% p. ann. is quite contrary to the Custom or Method of any Banker whatever'.<sup>33</sup> In December 1771, one of the letters noted that the London bank was glad to hear that the bank in Truro was doing well.<sup>34</sup> The relationship between the two banks becomes clearer from a letter from February 1772, where the writer states:

I am obliged to you for ye particular you send me of the transactions at Truro, & I am in hopes in time we may make more Advantages there first by getting money on our notes which in time ye people of the Country must find more Convenient than Specie & secondly by receiving Interest on Cash given for Bills on London & think you would do well to take what money you can get at 2% p.a. for as soon as

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<sup>28</sup> Ibid., to James Willyams, 5 Oct 1771.

<sup>29</sup> Ibid., to James Willyams, 3 Oct 1771.

<sup>30</sup> Ibid., to James Willyams, 30 November 1771.

<sup>31</sup> Ibid., to John Buller, 2 January 1772.

<sup>32</sup> Leighton Boyce, *Smiths the Bankers*, pp. 68-9, 74-6. The Nottingham bank was run by Abel Smith II.

<sup>33</sup> KHAC, EK-U1979/B2, to James Willyams, 21 Nov 1771.

<sup>34</sup> Ibid., to James Willyams, 7 Dec 1771.

you can send me that Cash here by Bills on London I can most commonly make 5% of it & always 4%.<sup>35</sup>

The sentiment was reiterated a few days later, when the writer bemoaned the shortage of money in Cornwall, but re-iterated his hope that this would get more of the bank's notes into circulation. To this effect he also noted the efforts of John Oliver Willyams, father of James Willyams, at Carnanton to collect money on the bank's behalf.<sup>36</sup> At this point the balance of the Truro bank in London was about £8,917. This figure included all drafts made on the house which had been accepted, so the actual cash balance was somewhat higher at £11,794.<sup>37</sup> Subsequent attempts to increase the resources of the Truro bank were always of considerable interest to the London bank. The bank was especially supportive of the plan by the Truro bank to potentially offer customers 3% interest for deposits left for six months, at the end of which they would be given the option of either renewing the 6 month term or to renew on a note at 60 days sight, as this was definitely expected to be in the bank's interest.<sup>38</sup> An 'experiment' in issuing £5 and £10 notes, presumably to expand the bank's circulation, was also encouraged by the London bankers.<sup>39</sup>

These letters are incredibly significant in providing an understanding of the type of business the London bank hoped to operate. It is quite clear that it expected the increased deposits and note issues of the Truro to be of advantage to the resources of the London bank as well. The combined banks were operating a simple carry trade, where they would borrow at 2-3% and lend 4-5%, in the process in profiting from the 2-3% margin. It is unfortunate that it is not possible to see the accounts that would confirm the size of this type of business. It is also exceptionally hard from this type of letter to argue that the London or Truro bank was designed to boost the industry of Cornwall. There is no evidence from the letters of an interest in lending long-term to the tin-mining industry. Indeed, as will be shown shortly, there was a specific desire to avoid entanglements in the tin trade. What the Truro bank appears to have offered was a solution to the shortage of circulating medium and a relatively safe place to save. The correspondence also implies a surplus of short-term funds locally, which could funnel towards London, where there was always demand for these funds. This is very important in what it says about the English economy at this period in time.

As well as the close relationship with the Truro bank itself, other letters indicate that the London bank acted on behalf of individuals who were agents of the Truro Bank. Most clients of the Truro bank would not have unrestricted drawing rights on the London house, as the latter would have no way of establishing the position of that person's account in Truro. Mr William Harris of Cambourne was an important enough customer that the London house was happy to let him draw as much as he wanted in London, 'it is hardly probable such a gentleman should overdraw, & if by accident it should happen observe we

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<sup>35</sup> KHAC, EK-U1979/B2, to James Willyams, 27 February 1772. Unfortunately it is not possible to say exactly how this was achieved.

<sup>36</sup> Ibid., to James Willyams, 5 March 1772.

<sup>37</sup> Ibid., to James Willyams, 27 February 1772.

<sup>38</sup> Ibid., to James Willyams, 13 June 1772.

<sup>39</sup> Ibid., to James Willyams, 30 June 1772.

are very safe'.<sup>40</sup> In the early stages all the bills remitted by Harris and made by him were credited/debited to the account of the Truro bank. The London bank again highlights the somewhat different nature of these transactions by stating that Mr Harris does 'not Correspond with the London Bank', i.e. that all these transactions are carried out in the name of the Truro bank.<sup>41</sup> Shortly afterwards the London bank sought to clarify this arrangement, asking the Truro bank if the transaction of Harris and one Mr Martin Stephens should continue to be directly passed through the Truro account, or if they should be set up as individual accounts.<sup>42</sup> This method of accounting was confirmed as desirable.<sup>43</sup> A similar arrangement was established with Philip Richards of Penryn, who was regarded by the London bank as part of its 'Country Connection'.<sup>44</sup> Indeed from the wider correspondence it would appear that Richards' agency for the Truro bank was the more substantial and that he was more often consulted on matters pertaining to the running of the bank. Unlike Harris, Richards was a direct recipient of correspondence in his own right from the London bank. While he was then more substantial, he was still closely linked to the Truro bank.

These arrangements are significant because the country banks of the eighteenth century are generally regarded as unitary establishments, with a very narrow geographic reach. When considering country bank networks, studies have tended to focus on formal branches or offices that were established. Pressnell's numbers suggest that by the mid 1780s, there were only seven banks with more than one office, and by the end of the century 14. The analysis is focused on banks with clear branches, such as the Gurneys or the Smiths.<sup>45</sup> It is however possible that the use of agents has been overlooked, for the Truro bank is not the only example of such a relationship. Messrs Walkers & Co. of Sheffield maintained from the outset a 'dual bank' with an office in Rotherham, which initially was the bank's head office. Rotherham's significance, despite being smaller in population terms, was in its position with regards to the post office and being the seat of the county administration.<sup>46</sup> Lampard's analysis of the Margate bank demonstrates a similar network of local agents. It had agents in Canterbury (John Matthews, a builder and surveyor, and Epps & Co, wool merchants) and Sandwich, where Mr Josiah Stewart, a general merchant, worked on behalf of the bank.<sup>47</sup> These agents were useful for the bank, partly for the local knowledge they provided, but also because they expanded the bank's reach by procuring bills for discount and circulating its notes. These local agents were similarly connected to the head office's London banker, in this case Esdaile's. If Esdaile received a bill payable in Canterbury, then

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<sup>40</sup> KHAC, EK-U1979/B2, to James Willyams, 7 Dec 1771.

<sup>41</sup> Ibid., to James Willyams, 31 December 1771.

<sup>42</sup> Ibid., to James Willyams, 4 January 1772. Mr Stephens also appears to be of Cambourne, it is however not clear if both he and Harris were acting separately or in conjunction for the Truro bank in that town.

<sup>43</sup> Ibid., to James Willyams, 9 January 1772.

<sup>44</sup> Ibid., to Philip Richards, 23 June 1772.

<sup>45</sup> Pressnell, *Country Banking*, pp. 126-9.

<sup>46</sup> R.E. Leader, 'The Early Sheffield Banks', *Journal of the Institute of Bankers*, 38 (1917) p. 236.

<sup>47</sup> For Matthews, see Lampard, 'Cobb & Son, bankers of Margate', pp. 329-34. For Stewart, see *ibid.*, pp. 334-36.

these could be dispatched directly to Canterbury. Once the money had been collected it was left at Matthew's discretion whether it would be remitted to Margate or London.<sup>48</sup>

In examining regional transfers, it should also be noted that despite the dominance of London, other cities still had some uses. In the case of Forster, Lubbock & Co it can be most clearly seen in Bristol. The London bank made financial transactions through Bristol, as can be seen by the correspondence with Loscombe. There were two types: bills in favour of the Truro bank or Philip Richards that were payable in Bristol, but had come into the hands of the London agent and for which they wanted the money to be lodged in London. Thus Loscombe would often send bills on London banks and Bank of England notes to London. Of £800 that the bank was due to receive in favour of the Truro bank, they wrote to Loscombe to please 'when due to make us returns for, with Bills on London but please if possible not to send us many small bills & not to endorse the Bills to our order'.<sup>49</sup> Alternatively Loscombe also sent bills payable to Richards in London to the bank there to be collected.<sup>50</sup> Although the London bank had capacity to undertake transactions for Truro through Bristol, they were apprehensive of the cost of doing this. In reference to the £800 mentioned above, the London bank suggested that:

I was afraid their [other Bristol correspondents] Charges of Com[missio]n for receiving & remitt[ing] ye produce would have been to high as they pay me ¼ per cent for doeing such Business for them & that being ye Customary Charge in such cases, the making us Remitt[an]ces on Bristoll had better be if possible avoided I think.<sup>51</sup>

The example is interesting in showing the general shape of the payment network that was in place at this time. In general it seems that the main flow of money was directly between London and Truro. However clearly in certain instances it was convenient to route these transactions through Bristol.

Returning to the actual activities of Messrs Lemon & Co's London bank, the letters provide an insight into the types of business that the bank was seeking to become involved in. Negotiations with a Mr Rosewarne show that although a potentially substantial business was obviously welcome to the partners of the bank, this would not to be done at any price.<sup>52</sup> Rosewarne believed his business with the bank would amount to about £60,000 per year, which the partners regarded as attractive. They were less inclined to accede to his wishes that the bank guarantee to purchase a set quantity of tin per month or quarter at market price.<sup>53</sup> The objection to this was twofold. One objection was that the London bank had no desire to 'meddle' in the trade which 'would give Offence in general to the People of the County which we should avoid if Possible & should we Oblige one by taking tin in this manner others w[oul]d Expect it of us till at last we should be loaded with it [tin]'. There

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<sup>48</sup> KHAC, EK-U1453/B3/14/7, Esdaile's to Cobb & Son, 2 June 1787.

<sup>49</sup> KHAC, EK-U1979/B2, to Benjamin Loscombe, 18 June 1772.

<sup>50</sup> Ibid., to Benjamin Loscombe, 25 of February 1772.

<sup>51</sup> Ibid., to James Willyams, 18 June 1772.

<sup>52</sup> This is likely to be Walter Rosewarne, owner of Carvedras, an eight-furnace smelting house near Truro, see Barton, *A History of Tin Mining and Smelting in Cornwall*, pp. 21-2.

<sup>53</sup> KHAC, EK-U1979/B2, to John Buller, 19 Nov 1771.

was a belief that there were more attractive ways for the bank to employ its resources rather than in the tin trade. More interesting from the perspective of this study was the belief that the obligation to take this tin would act as a restraint upon the firm's capital. In the event of a war there would be no flexibility to exploit other more profitable opportunities that inevitably, in their opinion, arose, and the firm would be exposed to losses from the fall in the value of tin that a war would likely cause.<sup>54</sup> Even without a war it might constrain the firm in a way that was disadvantageous:

as our Success here must Depend on our Obliging those Friends who open Accounts with us by Discounts which Paper I can ever turn into mon[e]y again at a days notice should it be wanted; but tin may lay many months before we can see Mony for it & at last perhaps sell to loss & the risk is Certainly much greater than a good bill with several Indorsers upon it or than Navy bills or India Bonds.<sup>55</sup>

Not unsurprisingly, the London house was very keen to maintain a balance sheet that was as liquid as they could manage. Indeed it argued that 'as Bankers we have nothing to Trade' but needed to focus on discounting good paper for its customers.<sup>56</sup> By this, the bank presumably refers to the direct financing of commercial and industrial ventures, although it does still imply a narrow, specialised focus. It is also interesting because it is one of the few references to the types of investment the London house was making with its cash. It was not always possible to adhere to these ideals though. When Mr Lemon needed to dispose of surplus tin, the London house was not pleased by the prospect, but could not really refuse its partner.<sup>57</sup>

Concerns about the management of the London business' cash come through from other parts of the correspondence as well. The question of large drafts on the London house was one of concern. They wrote to Willyams that:

we could Wish it was Possible for you to Persuade those People who take such Large bills on our House here as Mr Coppingers to take them at 30 days, which w[oul]d be of Great service to us if in your Power to do it.<sup>58</sup>

This was broadly a repetition of a point already made in January, when the Truro bank drew £3,088 on the London bank via notes at hand, which had to be paid at sight. This was of course paid. However the bank on this occasion requested that in future such drawing be made at 3 to 4 days sight, as 'we must not let money lay idle' and they 'should have quite sufficient time to find the cash in that time'.<sup>59</sup> The bankers were therefore clearly aware of the conflicting desires to maintain a significant degree of liquidity, but not to keep too much cash at hand. If they had more notice of large drawings, then it let them run their business more effectively. However they also acknowledged that they did not have

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<sup>54</sup> KHAC, EK-U1979/B2, to James Willyams, 17 Nov 1771 and to John Buller, 19 Nov 1771.

<sup>55</sup> Ibid., to James Willyams, 7 Jan 1772.

<sup>56</sup> Ibid., to James Willyams, 18 January 1772.

<sup>57</sup> Ibid., to James Willyams, 19 December 1771.

<sup>58</sup> Ibid., to James Willyams, 26 May 1772.

<sup>59</sup> Ibid., to James Willyams, 21 January 1772.

complete control over this, as in relation to Copinger's bills, they later wrote to Willyams that while it was desirable to get bills at a longer date:

as it is full as Necessary you should have cash with you as that we should have it here, [and] Mr Copinger frequently supplys you with it, I don't by any means think it would be worth our while to Lett him Carry it any where else & therefore I think you had better not give up the connection.<sup>60</sup>

In this instance, it appears that the bank was trapped by their customer to provide the money required. While it was the most desirable form of conducting business from the London bank's perspective, the business was valuable enough that they did not wish to lose it to a competitor, which appears to have been a genuine risk on this occasion.

A strict focus on cash management was especially important in early 1772, which had not been the most auspicious time to start a new banking venture. Shortly after the bank's opening, Britain was engulfed in a severe financial crisis. The tightness in the credit markets was clearly settling in by the beginning of the year, as the London house reported that money was scarce in London, Exeter and Truro, where Sir John Molesworth's bank apparently had needed to have coin sent to it by land carriage.<sup>61</sup> The shortage of cash was initially regarded as an opportunity, with hopes the Truro Bank

may Introduce the use of Notes which must be much more commodious to people to be paid in than in Money & to make them circulate about the County of Cornwall is much to be wished for our Interest.<sup>62</sup>

On 11 June, the London bank reported the failure of Neale, James, Fordyce & Down to the Truro agent. This had occasioned 'great confusion' and therefore the London bank was hopeful that Truro would send them any remittances they could spare, as they expected cash to become scarce.<sup>63</sup> This sense of panic was heightened by the Glyn & Hallifax stopping payment at the end of the month. At this stage they reported that there 'are 2 more considerable Bankers in ye City & 2 at ye other end of the Town much talk'd of that you may suppose ye generall distress there is here & very great Scarcity of mony'. This caused the bank to bemoan the timing of the Truro bank drawing for £2,089 and led to a repeated request for extra remittances.<sup>64</sup> When the Douglas Bank also stopped payment, the situation was such that the London bank argued that 'I am fearfull such a scene will happen now as has never been known since ye year 1720'. Once again however this was not a time of complete despair, for they also argued that 'those who can stand their ground at present may do well hereafter but it will be a very trying time indeed'.<sup>65</sup> In July the tone of the letters improved and it seemed that the crisis might pass. However by 1773 the situation was again looking more precarious. The failure of the house of Clifford & Sons in Amsterdam caused 'distress & confusion', although fortunately neither of Lubbock or

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<sup>60</sup> Ibid., to James Willyams, 4 June 1772.

<sup>61</sup> Ibid., to James Willyams, 14 January 1772.

<sup>62</sup> Ibid., to James Willyams, 5 March 1772.

<sup>63</sup> Ibid., to James Willyams, 11 and 13 June 1772.

<sup>64</sup> Ibid., to James Willyams, 23 June 1772.

<sup>65</sup> Ibid., to James Willyams, 30 June 1772.

Furly's merchant businesses was directly affected by the failure, there was apprehension about indirect difficulties. Once again the call for extra remittances was repeated.<sup>66</sup> The response to the crisis was clear: reduce the acceptance the firm was under as much as possible and lean on the country connection to increase its remittances. However the firm did find that the country bank connection was a two-edged sword, for its drawings could put extra demands on the London house that at this time were not welcome.<sup>67</sup>

While the periods of crisis were difficult for the bank, they did also present opportunities. This was still a new bank intent on extending its connections. The correspondence shows how the partners sought to expand the bank. Norwich in particular appears to have been an area where the bank wanted to expand its business. One of the earliest firms to be approached in this area was Allday and Kerrison.<sup>68</sup> Despite intervention of one Thomas Durrant, the attempt to gain this firm's customs appears to have failed. The letter does however give an indication as to why the bank wanted this business in particular:

We are promised by some Norfolk Salesmen that they will pay the Money into our House provided we will pay the same by a Friend at Norwich, which makes it absolutely necessary for us to have a Correspondence with your place & we know no House whose Friendship would be more desirable to us than your Good selves.<sup>69</sup>

Further examples of the efforts made towards expanding the business in this region can be found when Sir William Lemon Forster Lubbock and Co discovered that Messrs Bevan & Co were 'declining the Banking Business in Norwich'. On this occasion the bank was targeting in particular the following firms of the Norwich area: Messrs Edmund Gurney & Ellington, Mr William Mack, Messrs Addey & Page, Messrs Crowe & Taylor, Messrs Kett, Wells & Peckover, and Mr John Thurlow. To each of these houses the bank had written expressing their willingness to act as bankers for them.<sup>70</sup> However the bank hoped that Scott & Son might recommend the bank to any of these houses if they were acquainted with them.<sup>71</sup>

Some attempts to gain new custom more explicitly sought to exploit competitors' weaknesses. In January 1773, Messrs Lemon, Buller & Co had attempted to win business from George Colebrooke's bank, in this instance focusing on one Mr Carter, a grocer in Norwich who supposedly wished to leave that bank. Scott & Son was again requested to testify to the bank's diligence; however they apparently had no connection to Carter.<sup>72</sup> When the firm of Sir George Colebrooke, Lessingham and Binns failed on 31 March 1773, it

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<sup>66</sup> Ibid., to James Willyams, 2 January 1773.

<sup>67</sup> Ibid., to Phillip Richards, 23 June 1772.

<sup>68</sup> This was presumably the bank of that name, the second of the Norwich banks, established in 1768. See W.H. Bidwell, *Annals of an East Anglian Bank* (Norwich, 1900), p. 13. If the bank was established that year, then it would seem strange that it did not already have an agent in London at that point. By the end of the century its agent was Williams, Son & Drury (later Williams, Deacon & Co.).

<sup>69</sup> KHAC, EK-U1979/B2, to Allday & Kerrison, 25 June 1772.

<sup>70</sup> Ibid., to various recipients, 27 March 1773.

<sup>71</sup> Ibid., to John Scott & Sons, 29 March 1773.

<sup>72</sup> Ibid., to John Scott & Sons, 21 Jan 1773 and 5 Feb 1773, pp. 208, 303.

was well-established.<sup>73</sup> Hilton Price placed the earliest record of the firm to 1706, under James Colebrooke, who was described as a scrivener. By 1736 they were established near the Royal Exchange as Colebrooke, Rooke and Harvey.<sup>74</sup> Sir George Colebrooke himself had important mercantile connections, being chairman of the East India Company and having inherited £200,000 from his father-in-law, Peter Gaynor, a merchant and planter in Antigua.<sup>75</sup> This meant that it had some strong connections that the new bank wished to attract. Messrs Lemon targeted the business of the Norwich banker Charles Weston, who had previously used Colebrook as his London agent.<sup>76</sup> In this instance Scott does appear to have made some efforts on the London bank's behalf, however this was ultimately futile as in April Messrs Lemon wrote to them that:

we are exceedingly obliged to you for your kind readiness to serve us on all occasions & for your very obliging desire that we should succeed in our attempts to increase our Connections which however to our surprise & disappointment we have failed in.

Despite Messrs Lemons taking up the Norwich bank's bills at Colebrooke's failure, which might otherwise have remained unpaid, the Weston Bank took up the services of Messrs Fuller, Halford & Vaughan.<sup>77</sup> While the expansion of the firm's business was clearly desirable, the bank was also aware that during a crisis this needed to be done with caution and the people they chose to target were deliberate choices. The need to avoid reckless behaviour was emphasised in a letter to Richards:

Had we attended to Nothing but the increasing our Number to the Bank we could have Procur'd many new Customers indeed, but we first Consider'd how far we could with Prudence assist 'em which Occasion'd us to give up many we could Sincerely have wish'd to have had, & had we Acted otherways we sh[oul]d with reason soon have brought the Reflection of our Friends in the Country upon us by making as Ridiculous a figure as some of our Neighbours have done here.<sup>78</sup>

It is now necessary to consider the actual business undertaken for clients. As has already been suggested, some business was gained through the personal activities of the partners of the bank, such as through the sale of tin. However this was not the only business that was carried out for the clients. The London bankers also carried out services more usually associated with West End bankers. In early December, one of the partners went to Messrs Coulthard & Wildman to gain power of attorneys to receive dividends on stocks and shares

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<sup>73</sup> Lucy Sutherland, 'Sir George Colebrooke and the World corner in the alum', *Economic History* III (1936), pp. 237-58.

<sup>74</sup> Hilton Price, *Handbook of London Bankers*, pp. 41-2.

<sup>75</sup> R.B. Sheridan, 'The Rise of a Colonial Gentry: A Case study of Antigua, 1730-1755', *ECHR* 13.3 (1961), p. 349.

<sup>76</sup> KHAC, EK-U1979/B2, to John Scott & Sons, 31 March 1773, p. 358. Weston's bank had been established in 1756, see Bidwell, *Annals of an East Anglia Bank*, p. 13.

<sup>77</sup> KHAC, EK-U1979/B2, to John Scott & Sons, 6 April 1773, p. 369. Dawes and Ward Perkins give the agent as Barclays in 1795 and Fuller & Co in 1799, p. 432. It is doubtful from this letter and based on Barclays links to the Gurneys, that they were ever the bank's agent.

<sup>78</sup> *Ibid.*, to Phillip Richards, 23 June 1772.



and interest on mortgages on behalf of Lemon and/or Buller.<sup>79</sup> It would seem from later correspondence that this firm of attorneys had been used by the two senior partners to handle their financial affairs in London prior to the establishment of their bank there. This would not be implausible, as they were an eminent firm known to have specialised in conveyancing and providing financial advice to the gentry and aristocracy.<sup>80</sup> Despite Coulthard in particular enjoying a reputation as being able and honest, the relationship with these attorneys had clearly become fraught. By July 1772, there was hope that Buller might be able to forward the dispute with Coulthard.<sup>81</sup> The difficulties stemmed from Coulthard being slow or reluctant to pass over money to the London bank: 'for does he once get it [the money due to Lemon from a repaid mortgage] in his hands it will I am afraid be a very difficult matter to get it out again'.<sup>82</sup> The attorney was uncooperative in providing information to the bank on where to collect interest on mortgages due to Mr Lemon.<sup>83</sup> This exchange is interesting because it highlights the declining importance of attorneys in administering the finances of the gentry, but also shows how long their influence nonetheless lingered in this sphere. It would also indicate that the beneficiaries of this shift away from attorneys as financial intermediaries were not always West End bankers, as one might have anticipated. Yet one would not want to over-emphasise this latter point, as it may have simply been a favour to the partners of the bank that brought it this type of business. Finally one should note that certainly in the summer of 1772, Sir William Lemon was not the customer the bank might have hoped for. At this point the London partners were complaining to Willyams about the extent of the drawing on Lemon's account, claiming that a man of Mr Lemon's 'consequence & situation in Life ...[should] have something Handsome on his account which is customary even was he not a Partner'.<sup>84</sup>

The more typical business consisted of three main activities, for which standard rates were given. Firstly the bank would receive remittals and accept drafts that customers wished to make on it, for which a commission of 0.33% was payable, and which was the most visible in the correspondence. Secondly the bank was willing to arrange the insurance needs of customers (0.25% commission); and finally it could negotiate foreign bills of behalf of the client (0.1% commission).<sup>85</sup> Not all clients availed themselves of all three facilities and there was some flexibility over price. Thus the bank wrote to Christian Bramley in Leeds that the standard charge for paying drafts and acceptances was 0.33%, however if he had 'not many foreign Bills to negotiate we will accept yr dr[a]fts for ¼ p.ct.'. <sup>86</sup> This preferential rate

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<sup>79</sup> Ibid., to James Willyams, 7 December 1771.

<sup>80</sup> Albert J. Schmidt, 'Marketing Property in Eighteenth-Century England: Lawyer History in the Huntington Library's Stowe Collection' *Huntington Library Quarterly* 62.1/2 (1999), pp. 118-20; idem, 'Provincial to Professional: The Mentalité of Attorney James Coulthard (1718-86)', *QLR* 213 (2003-2004), pp. 214-8.

<sup>81</sup> KHAC, EK-U1979/B2, to James Willyams, 9 July 1772.

<sup>82</sup> Ibid., to James Willyams, 19 May 1772.

<sup>83</sup> Ibid., to James Willyams, 25 July 1772.

<sup>84</sup> Ibid., to James Willyams, 18 July 1772. A similar sentiment is expressed in a letter to James Willyams, 28 July 1772.

<sup>85</sup> Ibid., to Christian Routh, 7 July 1772. The charge of 0.33% appears to apply to both remittals and drafts.

<sup>86</sup> Ibid., to Christian Bramley Senior, 28 July 1772.

appears also to have been offered to Messrs Wormald & Fontaine and Mr James Rhodes, both also of Leeds.<sup>87</sup> Lubbock's association with Preston appears to have caused some difficulty at this early stage in relation to the insurance business. As Preston did not participate in the bank, he was keen to protect his insurance business from competition from the bank, and must have reached some sort of understanding with Lubbock on this matter. A letter to Messrs Grundy & Russell indicates the problem this caused:

As Mr Preston has no concern in our Present undertaking [the bank] we would wish not to interfere in any Concerns with Lubbock & Preston, the matter now in question of negotiating of Bills is not an Object for you & them to differ About & which we hope will be Agreeably settled.<sup>88</sup>

Clearly the business of Preston and Lubbock was purely related to the insurance, and it would seem that Lubbock probably approached some of the clients of this firm to join his new banking venture. Where this was so, Preston expected to continue to carry out the insurance business. In these instances the bank was determined not to do anything 'unhandsome' by Mr Preston.<sup>89</sup>

If the accounts of both Scott & Sons and Edward Penfold, of Arundel, are at all representative, then the key part of the bank's business was in handling clients' remittals. Penfold's correspondence was incredibly regular and was exclusively focused on drafts and remittals, no other business appearing.<sup>90</sup> Scott's account was more extensive. In the period from 29 October 1772 to 13 August 1773, Scott appears to have remitted £9,300 to the bank and drawn on it for about £9,100.<sup>91</sup> Once again one finds that the vast majority of the business was focused on the remittals of cash and drafts on the London house. Some other services were provided, including a couple of instances where foreign drafts were negotiated and bills protested for non-payment, such as a remittance on Aron Goldsmid for £250, who stopped payment in January 1773.<sup>92</sup> Toward the end of the period covered by the letter book, the bank also appears to have been sourcing specie for Scott and sending this to Norwich.<sup>93</sup>

In contrast, lending was an area that the bank seemed determined to avoid. In most of the letters laying out the terms of business, it is clear that the bank charged 5% per annum on any money it lent to clients. However it also appeared to be extremely reluctant to do so. The London bank noted that:

as it is not the Business of a Banker to accept without Effects we hope you'll not be offended at our begging the favour that you will not expect we should accept farther than for the remittances you make us.<sup>94</sup>

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<sup>87</sup> Ibid., to Messrs Wormald & Fontaine, 29 August 1772; to Mr James Rhodes, 21 January 1772.

<sup>88</sup> Ibid., to Messrs Grundy & Russell, 23 April 1772.

<sup>89</sup> Ibid., to Messrs Wormald & Fontaine, 29 August 1772 and to Routh, 15 July 1772.

<sup>90</sup> Ibid., to Mr Edward Penfold, see for example 12 May 1773, 10 June 1773 or 29 July 1773.

<sup>91</sup> Data reconstructed from letters to Scott & Son in EK-U1979/B2.

<sup>92</sup> KHAC, EK-U1979/B2, to KHAC, Scott & Son, 4 January 1773.

<sup>93</sup> See for example Ibid., to Scott & Son, 6 August 1773.

<sup>94</sup> Ibid., to Mr James Rhodes, 21 January 1772.

It appears that the bank was not overly concerned about when these remittances were due, explaining that 'should said remittances have a month or two to run, that would be no objection to us'.<sup>95</sup> What the bank wished to avoid was to find itself in a situation where it was completely uncovered. If the customer ever did end up drawing for a sum greater than which he had remitted, then the bank reserved the right to charge interest on this overdraft.<sup>96</sup>

If a customer consistently failed to provide adequate remittals, the bank could refuse to carry on its business with a firm. This situation arose with Anthony Rutherford, a customer located in Sunderland. The problems with this account emerged at the end of June, when the bank demanded that he send some bills as:

the paper we have received from you is not altogether what we approve of and we desire you will not pay any farther drafts on us for as the paper you in general remit we have not a sufficient knowledge of to be thoroughly satisfy'd with, we would rather decline doing your Business.<sup>97</sup>

Part of the problem with Rutherford's business was that the bank was not acquainted with the people on whom Rutherford's remittals were drawn. If they had been better acquainted, they may have been able to make a more subjective judgement on whether the paper would eventually be paid, even if this was not punctual at the time. However a continuous stream of remittances that were not paid or accepted over the next month convinced the bank that the business 'gives us so much trouble & Occasion us so much more risk' that they were right to ask for the account to be closed.<sup>98</sup> The bank further wrote that

we are much disappointed ... that there should have been any Occasion to Return yr drafts, but you cannot reasonably wonder at it when you consider yr Remitt[an]ces were refused Acceptance & some sent back with protest & others on those who did not pay their acceptances when due; we wish for your sake as well as our own that ye had been moore punctual in yr dealings with us.<sup>99</sup>

Closing the account however did take some time: in November the balance was -£178 and by March 1773 had still not been paid off in full.<sup>100</sup> One does wonder if economic conditions had been better whether Rutherford might have been afforded a little bit more time to sort his account than he was given. However it does indicate the focus of the management of the bank on avoiding unplanned lending and carrying out a business that was as safe as they could manage.

Rutherford was not the only customer to leave the bank at this stage. Others also left of their own accord, much to the chagrin of the bank's managers. In July 1772, the bank was

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<sup>95</sup> KHAC, EK-U1979/B2, to Christian Routh, 7 July 1772.

<sup>96</sup> Ibid., to Messrs Wormald & Fontaine, 29 August 1772.

<sup>97</sup> Ibid., to Rutherford, 25 June 1772.

<sup>98</sup> Ibid., to Rutherford, 17 July 1772.

<sup>99</sup> Ibid., to Rutherford, 30 July 1772.

<sup>100</sup> Ibid., to Rutherford 13 November 1772, 29 March 1773.

reporting to Willyams that one Mr Pengree was leaving the bank 'because we would not discount paper we by no means approved of', but was more concerned by one Mr Kevill having drawn his exact balance on the bank, fearing he might be leaving.<sup>101</sup> The departure of the latter was confirmed by the end of the month, when he switched his custom to Biddulph & Cox, which was 'very disagreeable'.<sup>102</sup>

The section above has sought to provide an insight into the operations of a newly established City bank, in terms of the type of business it undertook, the opportunities it saw, the difficulties it faced and the relationship between the London bank and its country counterpart. The absence of balance sheets or other accounts makes it impossible to form a precise view of the scale of the business at this early stage.<sup>103</sup> The bank at its opening was obviously small: it is mentioned that the balance at the close of the first day was £6,362.12.11, although it is unclear how this was calculated.<sup>104</sup> While tracing the bank's development into a major agency house over the next twenty years is unfortunately not possible, the following part will focus on some of the information that is available for the later periods.

Over the next 15 years, the bank saw extensive changes in its partners: John Buller probably retired in 1776, while Willyams was made a partner the following year.<sup>105</sup> In February 1785, Sir William Lemon announced his retirement from the firm to its clients, ensuring them that 'it is on the most amicable footing with my late Partners to convince you of which permit me to recommend the Continuance of your favours to them'. This correspondence also notified the client of the decision to enlarge the partnership through the appointment of William Bosanquet, the firm now becoming Furly, Lubbock, Bosanquet & Co. Again the continuing partners expressed their hope that the customers would continue their business with the firm.<sup>106</sup> While potentially a mere formality, the document indicates the risk of client defections due to a change in the partners of the bank and the need to pre-empt these if possible. It is noticeable that a similar letter was printed later the same year when John Furly chose to retire and Edward Forster was to assume his position.<sup>107</sup>

Both Edward Forster and William Bosanquet were typical of London banks drawing upon the City's merchant classes to provide new bankers. Edward Forster was born in 1765 and thus was twenty when he became a partner in the bank. His father, also Edward, was the son of Dorothy Furly, who had married Thomas Forster of Walthamstow, and 'completed his education in Holland in the house of his relation Mr Furley'. He was an important merchant in the City, becoming Governor of the Russia Company for 52 years.<sup>108</sup> Edward

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<sup>101</sup> Ibid., to James Willyams, 21 July 1772.

<sup>102</sup> Ibid., to James Willyams, 30 July 1772.

<sup>103</sup> KHAC, EK-U1979/B6 contains the only ledger of the bank I have been able to see, which covers bad debts from 1790 onwards, but mainly covers the period after 1811.

<sup>104</sup> KHAC, EK-U1979/B8/3, Notes on Bank partnerships.

<sup>105</sup> KHAC, EK-U1979/B8/1, Notes on Bank partnerships.

<sup>106</sup> KHAC, EK-U1979/B7/4, Wm Lemon to Messrs Miller & Hark, London February 1785.

<sup>107</sup> KHAC, EK-U1979/B7/7, Letter announcing retirement of John Furly.

<sup>108</sup> [Forster] *Epistolarium, or Fasciculi of curious letters, together with a few poems, and some account of the writers as preserved among the MSS of the Forster family*, pp. 2-8; Sachse, Furly and

Forster's entry to the bank was therefore presumably facilitated by the family connection, but the Forster family itself were clearly merchants of substance. Similarly the Bosanquets were of merchant stock: they were Turkey and Levant merchants of Huguenot extraction. Samuel Bosanquet had also been a Director of the Bank of England since 1774.<sup>109</sup> William Bosanquet was of the other branch of the family, which was engaged in the Hamburg trade. His father, Jacob was had been active in that trade since the 1730s, and it appears that his son set out to become a banker after leaving Oxford university in 1778. The history of the family implies that he served as an apprentice with the bank before being offered a partnership.<sup>110</sup> This is plausible given the absence of any family connection with the bank. In any event, the family name would have brought status and reputation to the bank, which was useful at this point of transition.

The extensive changes when the bank became Messrs Forster, Lubbock, Bosanquet & Co probably occasioned a complete re-writing of the partnership agreement in 1785, copies of which have survived.<sup>111</sup> The firm in 1785 was to have four partners: Forster, Lubbock, William Bosanquet (of Bloomsbury) and John Aldren Clarke. Only Clarke is described as a banker and he did not provide any initial capital to the bank. His position in the bank was however potentially lucrative: he was paid £100 p.a. as a salary and also had a claim on the profits of the firms. This part of the agreement confirmed the status Clarke had achieved in December 1780, when he accepted an offer to become a partner in the firm of Lemon, Furly, Lubbock and Willyams. The terms of service were clearly modified however, as he was initially to be paid £200 per annum, and did not share in the profit and loss of the firm. He was prohibited from taking on any business of consequence, but instead seems to be responsible for running the accepting and discounting of bills.<sup>112</sup> Such junior partnerships did occur elsewhere, and tended to be rewards for loyal services by senior clerks. Thus Glyn, Mills & Co promoted Henry Parry to the position of nominal partner in 1796, having been special clerk from 1791. He was offered the choice of either a fixed salary or a share of the profits of the firm.<sup>113</sup> The attraction of such a position to a clerk was presumably that one gained a share in a partnership without the need to find the money to purchase a share in the firm, which might be necessary if they wanted to join a new firm.

Each of the principal partners (Lubbock, Bosanquet and Forster) was to provide £5,000 towards the capital of the bank. The agreement also provided for the entry into the partnership of Samuel Bosanquet in 1789, when he would contribute another £5,000, meaning that by 1790 the firm's capital would have been £20,000, with the potential for

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Vettekeücken, 'Benjamin Furly', p. 296. Edward senior was also a governor of the Royal Exchange Assurance; Edward Junior was his third son.

<sup>109</sup> Chapman, *Merchant Enterprise*, p. 31; Mary Clare Martin, 'Gender, the City and the Environs of London: Work, Family and Elite Status, 1740-1870', paper presented at Seventh International Conference on Urban History (2008), p. 1.

<sup>110</sup> Grace Lawless Lee, *The Story of the Bosanquets* (Canterbury, 1966), pp. 115-19.

<sup>111</sup> This section is based on the information in this partnership agreement. EK-U1979/B1/4, Articles of Partnership.

<sup>112</sup> KHAC, EK-U1979/B7/2, letter from JAC to John Furly and John Lubbock, 11 December 1780.

<sup>113</sup> Fulford, *Glyn's 1753-1953*, pp. 61-2.

further increases from retained profits.<sup>114</sup> The partnership was to last for a fixed term of fourteen years, although any partner could leave by giving six months notice of his intention to do so. Fixing the length of a partnership was probably not unusual and served a useful purpose under a partnership system, allowing old partners to retire and new ones to be brought in. Smiths' Bank used a similar arrangement of fixed length partnerships, which were consistently renewed. The attraction of this arrangement was probably that it allowed for the introduction of new partner, or the exit of those wishing to retire, and also provided a convenient point for the distribution of retained profits.<sup>115</sup>

The most interesting aspect of the partnership is its stipulations on the allocation of profits. The first claim on the gross profits was the interest the partners received on their share of the capital, at 5% per annum. This was followed by the payment of taxes and rent on the house. The third item to be paid was Clarke's fixed salary, as well as an allowance of £150 per annum to John Lubbock.<sup>116</sup> Once these expenses had been met, one sixth of the residual profits were set aside to be kept within the business to augment its capital. The habit of accumulating an internal reserve from the profits which was paid out as a lump sum was not unique to Messrs Forster, Lubbock & Co. It is known for example that the Smiths of Nottingham and London accumulated internal reserves that were not paid out to the partners for a number of years. When they were paid, this was done initially in the form of a promissory note, which would be redeemed by the transfer of government securities. While the reserves were used by the bank, they paid interest at 5% per annum through to 1793.<sup>117</sup> However the Smiths seem to have not had as strict a formula for calculating the retained earnings as Messrs Forster, Lubbock & Co. The remainder of the profits were to be paid out: the three senior partners (four upon the accession of Samuel Bosanquet) received equal shares of seven eighths, while Clarke received one eighth.

By the end of the century Forster, Lubbock & Co had created a substantial agency business. The 24 readily identifiable country correspondents of the bank at this stage fit into a very similar geographic pattern to the original customers (and partner connections) of the bank in 1772. The Truro bank obviously continued to feature, but was joined by two other Cornwall banks (in Penzance and St Austell). The broader South West continued to be an important source of clients, with 14 banks in Devon, Gloucestershire, Wiltshire, Worcestershire, Herefordshire and Shropshire. A further two were located in the connected region of South Wales. The five remaining banks were more widely dispersed, but were in locations where the bank had some other client business even at an early stage: one in Birmingham, one in Norwich, one in Stamford, one in Lymington and one in

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<sup>114</sup> This Samuel Bosanquet (1767-1843) was probably William's cousin, son of the aforementioned Director of the Bank of England, see Lee, *The Story of the Bosanquets*, pp. 85-90. He is not mentioned explicitly in relation to Forster, Lubbock & Co, but is the only Samuel who fits within the chronology.

<sup>115</sup> Leighton-Boyce, *Smiths the Bankers*, pp. 68-73. There was a major distribution of profits in 1781 and 1782, which coincided with the changes in the partners of the firm for example, see *Ibid*, pp. 55-8.

<sup>116</sup> This payment to Lubbock was designed to cover his costs as resident partner, including for example the insurance of the house against fire.

<sup>117</sup> Leighton Boyce, *Smiths the Bankers*, p. 55-6.

Farnham.<sup>118</sup> Notably there were no correspondent banks in the north of England, the traditional industrial heartland. In this respect, Forster, Lubbock & Co were apparently no different from other London agency banks, who appear to have concentrated their correspondent business where the partners had local connections. Glyn's business agency business once it emerged was focused on Scotland (a focus for the bank since the 1760s), Northumberland (Carr connection), West Yorkshire (Mills and Mitton originated from here), Warwickshire (Mills family stronghold), Cornwall, Dorset (both Glyn) and Kent (Plumptres).<sup>119</sup>

At this point Sir John Lubbock had also established himself as a prominent banker and MP, speaking in parliament on the Suspension of Cash payments. Shortly after their implementation, he believed they were no longer necessary, as he perceived there was 'no real want of specie in the kingdom'. Instead he argued that the Bank should return to convertibility at an unpublicised date chosen by the Governor of the Bank and if it was perceived necessary, it should increase its capital by £3 million, which 'would enable the Bank to discount to a much larger amount' and accommodate the needs of the commercial world.<sup>120</sup>

To end the story of Messrs Forster, Lubbock & Co. at the close of the eighteenth century, it is worth noting that in 1800, William Bosanquet died, after an accidental fall from a balcony.<sup>121</sup> At about the same time, at the end of the 14 years of the partnership agreement, Samuel Bosanquet left this bank. He formed a new bank by joining Beachcroft and Reeves, who themselves had formerly been part of the bank Bowles & Co.<sup>122</sup> The new firm, styled Bosanquet, Beachcroft & Reeves, also appears to have taken over the business of Samuel Smith & Son, which was the old London bank of the Smiths of Nottingham.<sup>123</sup> This firm continued until 1884, when it was merged into the Lloyds bank.<sup>124</sup> The Forster and the Lubbock families would continue to run their bank independently until 1860, when it merged with Robarts, Curtis & Co. This firm was the last of the London private banks to maintain a seat in the London Clearing House.<sup>125</sup>

The records of this important firm are not as complete as one might hope; however the information that has survived provides rich detail on the operations of a newly established bank. Many of the themes highlighted in the previous chapters are reinforced through this case study. The close connection between the banking and commercial world is readily apparent through Lubbock's, Furlly's and Bosanquet's participation in the bank. It is likely that they were responsible for much of the day-to-day management of the London house and provided many of the initial contacts that allowed the bank to be a success. The existence of a strong provincial connection also makes this an interesting case study. In

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<sup>118</sup> Based on my analysis of Dawes and Ward-Perkins' data. See below, pp. 170-1.

<sup>119</sup> Fulford, *Glyn's: 1753-1953*, pp. 96-7.

<sup>120</sup> BPP, *Eighteenth Parliament of Great Britain: first session*, 24 March 1797, pp. 149-50.

<sup>121</sup> Lee, *The Story of the Bosanquets*, p. 117.

<sup>122</sup> Hilton Price, *Handbook of London Bankers*, pp. 18-9, 142-3.

<sup>123</sup> Ibid., p. 153; Leighton-Boyce, *Smiths the Bankers*, p. 68.

<sup>124</sup> Sayers, *Lloyds Bank*, p. 14 describes Bosanquet & Co. as a 'typical foundation of the 1790s', but provides no information on the early history of this bank.

<sup>125</sup> Howarth, *Banks in the Clearing House*, pp. 188-9.

many ways the two houses, although separately managed, do appear to have been acting in concert, effectively acting as two branches of the same business. It shows how such a joint concern could be successfully managed, but also establishes the nature of the relationship between the two, with the provincial house acting as a source of funds which the London house could deploy in the London money markets. To establish how representative this bank was of other City establishments would require further detailed studies of other banks.



## Chapter 6: West End banking

The other part of London's banking world was located in the West End. Thanks to brand names that have survived through the present day, West End bankers are the most recognisable of the eighteenth century banks. Although they were not numerous, they can be regarded as a core part of the English banking system for two reasons. Firstly, being amongst the earliest banking establishments, they were important in pioneering the financial techniques of deposit banking. Secondly, although often characterised as simply providing services for the upper echelons of society, in reality most West End banks had particular features or specialist abilities that meant they were not a completely homogenous group and continued to innovate. In serving the upper classes and receiving incomes from their landed estates, they also served as a conduit between the country and the metropolis that ran alongside the more obvious link of the country banker and his city agent. This chapter seeks to trace the development of West End banking from just after the Bubble to the Suspension. Although focusing predominantly on the development of West End bankers, some of the points made apply more broadly to City and provincial banks as well.

London's West End bankers of the eighteenth century have been the subject of a handful of articles, the two most important of which are by Joslin and Melton. Joslin's 'London's Private bankers, 1725-1785' is seminal.<sup>1</sup> Melton's article reveals a different aspect of West End banking by adding short considerations of Ewer's and Drummond's to compliment Joslin's focus on Child, Hoare and Gosling.<sup>2</sup> These two general articles have been supplemented by some further niche work. Iain Black looks predominantly at West End bank buildings and their geographic distribution within London, but does add some useful information on their operation.<sup>3</sup> Hoare's important archive has recently been used to produce a number of articles relating to that bank. Although interesting, it is difficult to estimate their wider applicability and they remained largely confined to the beginning of the eighteenth century.<sup>4</sup> Finally the relative stability and longevity of these banks has generated a body of institutional histories of mixed merit.<sup>5</sup> This chapter draws on these articles and company histories, as well as additional archival research on Drummond's,

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<sup>1</sup> Joslin, 'London private bankers, 1720-5', especially pp. 172-79. His 'London Bankers in Wartime' is also relevant.

<sup>2</sup> Melton, 'Deposit banking in London 1700-1790', pp. 40-50.

<sup>3</sup> Black, 'Private Banking in London's West End', pp. 29-59.

<sup>4</sup> The most important of these is Temin and Voth, 'Banking as an emerging technology', pp. 149-78; other examples include Laurence, 'The emergence of a private clientèle for banks, pp. 565-86; idem, 'Women, banks and the securities market in early eighteenth century England', in Laurence et al., *Women and their Money 1700-1950: Essays on Women and Finance* (London, 2009) pp. 46-58.

<sup>5</sup> A selection of the most important include: Hector Bolitho and Derek Peel, *The Drummonds of Charing Cross* (London, 1967); Edna Healey, *Coutts & Co, 1692-1992, The Portrait of a Private Bank* (London, 1992); Victoria Hutchings, *Messrs Hoare Bankers; A History of the Hoare Banking dynasty* (London, 2005); Melton, 'Robert and Sir Francis Gosling: Eighteenth-Century Bankers and Stationers' in Robin Myers and Michael Harris (eds.), *Economics of the British Booktrade 1605-1939* (Cambridge/Alexandria, VA, 1985), pp 60-77. Sayers, *Lloyds Bank*, chapter 9, covers the West End constituents of Lloyds, including Cox's and Herries' banks.

Goslings and Child's, to consider the growth of these banks in more detail and to assess their position within the broader financial system.

By the time the South Sea Bubble had passed, banking had become a reasonably well established, but by no means common, occupation within London.<sup>6</sup> In chapter 2 it was shown that with the exception of a brief period in the eighteenth century, West End bankers were fewer in number than their City counterparts. In 1725, 15 West End bankers are identifiable. Black's article implies that numbers shrank thereafter, as he identifies only 6 in 1745.<sup>7</sup> This however appears to be incorrect: instead it seems that numbers remained steadily around 15 until the mid-1770s. The last quarter of the century did witness renewed expansion: by 1785 there were 18 West End banking firms and 26 by 1797.<sup>8</sup> West End banks did become geographically more dispersed over the course of the century: at first they were concentrated around Fleet Street and the Strand, but over time shops were established on New Bond Street and St James/Pall Mall.<sup>9</sup> Later establishments often had connections to old-established banks: thus Robert Herries' London Exchange Banking Company was established after he had worked with Coutts, and was also closely connected to the Edinburgh private bank of Forbes. In this instance the formation of the new bank was the direct result of Coutts' reluctance to embrace Herries' idea for a type of travellers' cheque.<sup>10</sup> The long track record of a number of West End firms, such as Hoare's or Drummond's potentially indicates a degree of stability. However the numbers suggest that turnover amongst West End banks was actually not dissimilar to City banks.

The business of the West End bankers is often portrayed as providing cash management and mortgages for the aristocracy and gentry. Sayers describes them as 'sturdy firms, doing specialist business for an aristocratic clientele and rather looking down their noses at those mercantile fellows down in Lombard Street'.<sup>11</sup> Joslin argues that the first half of the century witnessed the gradual demise of the traditional goldsmith type loans upon jewellery, and the loss of some of the early individual characteristics of a bank to produce an archetypal sound bank for land owners, with increasingly similar balance sheets. In general, their lending became ever more focused upon bond and mortgage to landowners and lawyers, while investments would be in securities such as Bank of England, East India and South Sea stock and tea warrants. Discounting was not significant, and reserve ratios could be reduced as clients demand for their money was more predictable than that of merchants.<sup>12</sup> Although these banks were becoming increasingly alike, they generally retained some particular identifiable mark, particularly in relation to their clientele. For example Child's maintained a strong connection with the East India Company, while Wrights bank focused upon the Catholic gentry. Thus 'personal friendship, family links, political colour or religious

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<sup>6</sup> Hoare's, Martin's, Child's and Gosling's at least are all thought to have completely abandoned their goldsmith businesses by 1720. Joslin, 'London private bankers', p. 172.

<sup>7</sup> Black, 'Private Banking in London's West End', p. 32.

<sup>8</sup> Hilton Price, *Handbook*, pp. 187-6; Joslin, 'London private bankers', pp. 175-6, puts these numbers at 15 in 1785 and 22 in 1797.

<sup>9</sup> Hilton Price, *Handbook*, pp. 212-3; Black, 'Banking in London's West End', pp. 32-37.

<sup>10</sup> Sayers, *Lloyds Bank*, pp. 193-203.

<sup>11</sup> *Ibid.*, p. 203.

<sup>12</sup> Joslin, 'London private bankers', pp. 175-7. This assessment was based on assets and liabilities for Hoare's, for which he has some figures, together with some evidence from Child's.

persuasion' influenced the precise make-up of the bank.<sup>13</sup> This indicates that although they were similar, they were not completely homogenous – in many cases they had at their inception characteristics that distinguished them from their peers. For example the bank of Herries & Co specialisation in providing financial services for clients travelling throughout Europe set it apart from other West End banks.<sup>14</sup>

This early individuality is particularly apparent in Melton's work. He argues that although the mortgage was the cornerstone of the more solid banks by the end of the century, this situation took some time to achieve. Other West End banks, such as such as Drummond's and Ewer's, were 'military banks' and initially were little more than cash management businesses.<sup>15</sup> Only after 1750 did Drummond's move towards increasing the number landowning clients, an attractive business due to its greater stability and predictability. However in their totality West End banks' client base remained diverse, and each group of clients had 'its own peculiarities of deposits and withdrawal', meaning that each bank needed to function in a slightly different manner.<sup>16</sup> A few banks never fully specialised: Goslings combined a business focused around aristocrats and especially lawyers, with a business handling the accounts of India merchants. The identification of such profitable niches can be regarded as part of the broader specialisation of the banking system, which was reflected in the financial evolution of these banks. The West End banker was in some ways the creation of the eighteenth century, rather than something that existed as a constant throughout the period.

The nature of the clients of West End banks is therefore important in understanding these banks and it is useful to consider briefly the end-users of these banks. The interest in banks' clients has been spurred by a number of groups. Institutional histories of early private banks often highlight their more famous customers, often using the presence of nobility to highlight the importance of the particular bank under discussion.<sup>17</sup> Client accounts and correspondence have also been a useful source of information to biographers who are interested in the personal finances of their subject.<sup>18</sup> More recently gender historians have been interested in examining the extent of female access to financial services in the early modern period.<sup>19</sup> The client focus is also due in part to the importance of client ledgers to the businesses, which have tended to survive more frequently than other bank records. The 'visibility' of the aristocratic and gentry clients, also facilitates this type of study, as records can often be traced from the client's side. Although these banks are characterised as banks for the gentry, the reality is that many bank customers were of lesser rank. Anne Laurence's argument that they became focused on 'landed aristocrats and gentry (both male and female), MPs and office holders, charities and clergymen', with business men usually absent, therefore better captures the nature of these banks' clients.<sup>20</sup> Temin and

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<sup>13</sup> Joslin, 'London private bankers', pp. 177-9.

<sup>14</sup> Sayers, *Lloyds Bank*, pp. 193-203.

<sup>15</sup> Melton, 'Deposit banking in London', pp. 42-4.

<sup>16</sup> *Ibid.*, pp. 48-9.

<sup>17</sup> See for example Edna Healey, *Coutts & Co*, pp. 129-141.

<sup>18</sup> Whyman, *Sociability and Power*, *passim*, provides a good example in her study of the Verneys.

<sup>19</sup> This work is driven particularly by Anne Laurence.

<sup>20</sup> Laurence, 'The emergence of a private clientèle for banks', p. 565.

Voth's analysis of the loans issued by Hoare's discovered that many of them were undistinguished in terms of their background.<sup>21</sup> Institutional histories also emphasise that by the middle of the eighteenth century, the leading businesses were trying to broaden their client-base, by the pursuit of customers from the artistic world for example.

Another point often emphasised about the clients of these banks is the close connection between the earlier customers and the partners of a bank, be they familial, religious or political. In the case of the Hoare's the original customer base appears to have been high churchmen.<sup>22</sup> In its infancy Drummond's tended to focus on Scottish residents in London, as did the forerunners of Coutts' Bank.<sup>23</sup> Yet over time the clientele of these banks did tend to broaden, becoming less dependent on factors of kin and religion. Once a connection to a bank was established, family loyalty to an institution does appear to have been significant, with sons and daughters maintaining links with their parents' bankers. Marriage in the case of examples from Hoare's bank however often led to the closure of the woman's account at the bank.<sup>24</sup> Anne Laurence therefore argues, in contrast to some other work published on the topic, in particular that of Carruthers, that the private banks of the period were essentially personal networks covered in an institutional cloak.<sup>25</sup> The relationship between banker and client was not always easy. It required a successful balance between maintaining a certain indulgence of the customer, whilst at the same time imposing financial discipline, so that the relationship would not become injurious to the bank itself. Nor were banking relationships necessarily unique: Sir Charles Wyndham maintained overlapping accounts with Hoare's, Child's and Drummond's in the 1740s.<sup>26</sup> These instances show that bankers needed to maintain a close interest in managing their client relationships. While many clients established long-term relationships with their bankers, circumstances could force these relationships to be re-examined. Thus Jane Thornton requested the transfer of the balance of her account from Messrs Vere, Glyn and Halifax to Messrs Morris and Catlarence in 1761.<sup>27</sup> In 1777 the Sun Fire Office decided to move its cash from Hankeys and to entrust the receipt of new funds to Messrs Mason, Currie, James and Yellowley.<sup>28</sup> In 1795 Captain Peter Kemble requested of Messrs Gosling to 'keep all moneys belonging to me in your hands' and also to 'receive from Messrs Cox & Co the remainder of my account'.<sup>29</sup> This example is interesting because Cox & Co had traditionally possessed strong links with military personnel, suggesting that there was genuine competition amongst bankers for clients, even amongst the more specialist banks.

The services offered to clients remained broad, but became increasingly purely financial compared to the seventeenth century. Early eighteenth century bankers might 'issue notes,

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<sup>21</sup> Temin and Voth, 'Private Borrowing during the Financial Revolution: Hoare's Bank and its customers, 1702-1724', *ECHR* 61.3 (2008), pp. 548-49.

<sup>22</sup> Laurence, 'The emergence of a private clientèle for banks', pp. 567-68.

<sup>23</sup> Bolitho and Peel, *The Drummonds of Charing Cross*, pp. 50-1.

<sup>24</sup> Laurence, 'The emergence of a private clientèle for banks', p. 568-75.

<sup>25</sup> *Ibid.*, p. 585. This corresponds with Lamoreaux's interpretation of developments in North America.

<sup>26</sup> WSGO, PHA 654, Bankers Book of Sir Charles Wyndham, 1745-1751.

<sup>27</sup> RBSGA, Glyn Mills Currie & Co, Guard book, volume 1, p. 104. Jane Thornton to Messrs Vere, Glyn and Hallifax.

<sup>28</sup> *Ibid.*, p. 105. Extract from the Sun Fire Office Minute book, 9 August 1777.

<sup>29</sup> BGA, G&S, 0131/0999, Capt Peter Kemble to Messrs Gosling, 4 May 1795.

purchase lottery tickets and stock shares, discount bills and notes, accept valuables for safe-keeping and act, generally, as London agents for any other affairs their clients might request'.<sup>30</sup> Much of the banking business was mundane. It often simply involved the provision of bank notes to a client, as will be seen in the Egremont correspondence. However this is not a unique example and at the end of the century bankers still received simple requests, such as dispatch of a twenty pound note to a customer.<sup>31</sup>

Some bankers developed 'stockbroking functions', although this opportunity was slow to develop and turnover in the major investible stocks did not increase until after the 1749 consolidation.<sup>32</sup> The use of power of attorneys enabled bankers to act as brokers for their clients in the management of investments in government securities. Collecting dividends appears to have remained an important part of the services provided by bankers: Nathaniel Mortimer in the middle of the century requested of Messrs Glyn and Hallifax that they should collect the dividends on £1,400 of South Sea annuities and carry it to the account of Barrow & Edwards.<sup>33</sup> They could also act in the transfer of stock, one Mendes making use of Glyn and Hallifax to transfer East India Bonds.<sup>34</sup> West End banks provided their customers with access to the stock market, although it is not clear how common this was. Anne Laurence suggests that early in the century about 30% of Hoare's customers availed themselves of this function. The purchases appear to have principally represented a search for income, although potential opportunities for capital gains were also pursued.<sup>35</sup> This still implies that 70% of customers maintained their accounts purely for the deposit facilities provided. Power of attorneys could be used for the management of other financial services as well. For example in 1793 Glyn & Co received the power from the partners Jeffery, Oke and Blake to allow them to collect and receive 'salary, Wages, Tickets, Bounty Money, Prize money'. Presumably the partners were naval officers, but it is also striking that the main text of this power of attorney had been printed, rather than handwritten, suggesting that the use of such documents was ubiquitous by this point.<sup>36</sup>

A relationship that is of particular interest at this point is that between London banks and their country clients. Although the bulk of the private bankers' clients maintained London addresses, many will have also maintained estates in the country. The operation of the country estate might also be assisted to some degree through the use of a London banker, in terms of most obviously mortgage loans. However the business of the West End bankers was not all about the provision of loans. They were equally important in the provision of payment facilities for their customers, a relationship of significance to the wider interaction between metropolitan and rural economies. It has been shown that Hoare's frequently

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<sup>30</sup> Melton, *Sir Robert Clayton and the origins of English deposit banking*, p. 68, based upon depositions by the bankers Thomas Snow and Thomas Martin.

<sup>31</sup> BGA, G&S, 0131/0999, James Dodsley to Goslings and Sharpe 25 August 1796.

<sup>32</sup> Joslin, 'London private bankers', p. 171.

<sup>33</sup> RBSGA, Glyn Mills Currie & Co, Guard book, volume 1, p. 101, Mortimer to Glyn and Hallifax, 10 May 1755.

<sup>34</sup> RBSGA, Glyn Mills Currie & Co, Guard book, volume 1, p. 101, M Mendes to Glyn and Hallifax, 2 March and 5 April 1757.

<sup>35</sup> Laurence, 'The emergence of a private clientèle for banks', pp. 569-74.

<sup>36</sup> RBSGA, Glyn Mills Currie & Co, Guard book, volume 1, p. 42, 14 Nov 1793. Earlier examples tended to be hand written.

sent money between Mr Milner in Leeds and themselves to fulfil the requirements of the female members of the Hastings family.<sup>37</sup> The Earls of Egremont provide another example. They had a long standing connection with Drummond's Bank, and accounts at Petworth House provide an insight into their interaction with this bank.<sup>38</sup> Lord Egremont maintained his own personal account with Drummond's, however his steward at Petworth, James Upton Tripp, also had an account with the bank, which was presumably used for the purposes of managing the estate. In a letter to the bank, Tripp explained to the bank that they should enclose letters relating to either account in the same post, but mark those intended for Tripp himself with a cross in the corner, so that Lord Egremont need not be bothered by them.<sup>39</sup> The same letter also highlights some of the difficulties of operating in a small village: Tripp explained to the bank that he could not reply by return of post as the post did not stay long enough in Petworth.

Tripp required two main services of the bank in London: the first, unexpectedly, was the need to draw on the bank for making payments in London. However the second was the provision by Drummond's of bank notes, of which Tripp received many. Sometimes both functions can be found in the same letter. Thus in April 1775, Tripp sent a letter to the bank enclosing a draft by Lord Egremont in Tripp's favour, with the request that £500 be sent to him in small bank notes immediately, while the other £500 be held on account, to be drawn upon by Tripp as required.<sup>40</sup> Tripp in general would regularly require of the bank between £500 and £1,000, money which was usually supplied in Bank Post Bills of £10, £20 or £25 denomination. In 1776, Tripp drew upon Drummond's for a total £4,515. Many of these transactions clearly relate to the management of the Petworth estate. In February, £200 was paid to William Hudson, the Head Gardener. Other recipients included Egremont's groom and a servant. Some of these drafts were paid into other London banks, with Prescott, Grote & Co, Messrs Fuller Halford & Co and Messrs Hankeys all featuring in some of these drafts. In addition to the drafts, over the same period £8,850 of Bank Post bills were received from Drummond's. Total drafts upon and bank notes received from Drummond's in 1777 amounted to £18,456 (compared to £13,365 of the previous year).

All this was ultimately paid for by Lord Egremont himself, as a number of letters refer to. A letter from October 1775 indicates that Egremont allowed Tripp to draw up to £5,800 on Drummond's at that point, of which a balance of £914 was still available.<sup>41</sup> Other letters are less specific, but do refer to the fact that Egremont was the ultimate source of funding for the account, claiming that he was 'glad to hear his Lordship has so ample supplied me' or that 'am glad to hear his Lordship has been so liberal'.<sup>42</sup>

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<sup>37</sup> Laurence, 'The emergence of a private clientèle for banks', pp. 578-9.

<sup>38</sup> This section is based broadly on the reading of correspondence contained in WSRO, PHA 9273-9277.

<sup>39</sup> WSRO, PHA 9273, 8 Nov 1774, James Upton Tripp to Messrs Drummond and Lord Egremont. This presumably was designed to save on postage costs.

<sup>40</sup> WSRO, PHA 9274, Tripp to Drummond, 16 April 1775.

<sup>41</sup> WSRO, PHA 9274, Tripp to Drummond, 26 October 1775.

<sup>42</sup> WSRO, PHA 9275, Tripp to Drummond, 4 February 1776 and 10 June 1776.

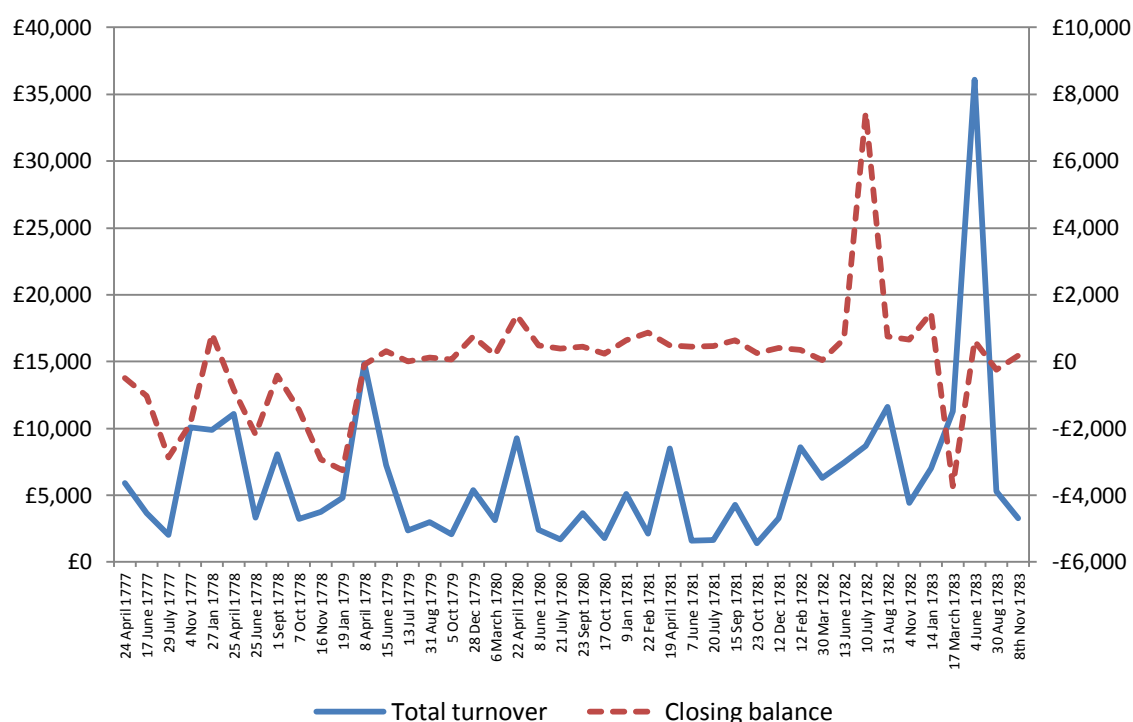


Figure 15: Tripp's balance of account and turnover with Drummond's Bank, April 1777 to November 1783 (Source: WSCO, PHA 10641)

It can be seen from Figure 15 that in general both the turnover and the balance of the account were maintained at a fairly consistent level, at around £5,000 and a small positive balance respectively. The attraction of such an account from the bank's perspective are quite clear – it was well managed by Tripp, the volume of business was steady and in general the customer required very limited accommodation from the bank. When such accommodation was required, it was generally only for short periods.

Another example of such a relationship was George Bowes, who held an account with Child's between Feb 1727/8 and May 1732. In this time deposits of over £16,600 were made into his account with the bank.<sup>43</sup> This was something of a middle sized account. It is likely that these were deposits made by the use of bills of exchange drawn on other people, the contents of which would be collected by the bankers, rather than by specie. Evidence exists in 1752, when Child's acknowledged the receipt of two bills worth £1,161 2s 5d, 'which when paid will be placed to the credit of George Bowes'.<sup>44</sup> From the surviving evidence, it is possible to suggest that for the period 1728-32, the account was usually used for everyday expenditure, what one might today describe as a current account. He was not using the account to borrow money from the bank – there is no evidence in the bank's loan books to show this.<sup>45</sup> This corroborates the fact that his own lists of debts make no mention of borrowings from any banker.<sup>46</sup> Any reference to values credited to his account

<sup>43</sup> DCRO, D/St/C1/3/62, ff. 6-8.

<sup>44</sup> DCRO, D/St/C1/3/23, John Fludd to George Bowes, London 8 Feb 1752, f. 2.

<sup>45</sup> This point has been confirmed by Mr Winterbottom, archivist at the RBS.

<sup>46</sup> DCRO, D/ST/C1/3/118.

originating directly from the bank probably refers to dividends that were collected on his behalf.

These examples indicate that although West End bankers were of obvious significance in the provision of London-based financial services, they also provided services for customers outside of London. The examples of the Petworth and Bowes accounts also show how important the London bank was in providing day-to-day services that facilitated the functioning of the rural economies. This would indicate that the flow of funds was not just remittances from the estates to London, a type of flow that is often acknowledged to have taken place, but could also have worked in the opposite direction.

## II

While the management of client relationships was important to a bank, the ultimate success of a banking venture depended on the partners' capacity to manage the bank's capital and balance sheet effectively. They needed to generate an adequate profit to justify their investments in these businesses. The economic performance of the banks over the course of the century therefore forms the major focus for the remainder of this chapter. It is in this area that it is perhaps most possible to understand the changing performance and role of the banks over the century. Temin and Voth have shown how an analysis of bank accounts can help to understand the problems and functions of a bank.<sup>47</sup> However there are no examples of similar types of analysis for other West End banks. This chapter seeks to provide some ideas on how West End banks evolved over the course of the eighteenth century.

By the eighteenth century Child's was a well-established firm, reputedly the first completely to abandon the goldsmith business. Although it retained ties with the East India Company, it is believed to have become a 'gentlemanly' bank, in a similar manner to Hoare's.<sup>48</sup> This situation can be seen in its balance sheets for the period. By 1713, this bank held almost £60,000 worth of cash, while the 'P account' and loans and overdrafts amounted to £50,752.<sup>49</sup> Child's balance sheets for this period show an increasing degree of specialisation in banking. This can be seen in the declining levels of gold, plate and other jewels held upon the firm's balance sheet. In 1704 this amounted to over £10,000, but by 1713 had sunk to just over £1,000. As a proportion of assets, this equates to a move from 7% to less than 1%, a clear and substantial reduction.<sup>50</sup> The balance sheets do however also suggest that Child's was struggling to achieve sustained growth (Table 7).

Date	Assets
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<sup>47</sup> Temin and Voth, 'Banking as an Emerging Technology', pp. 149-78; idem, 'Private Borrowing during the Financial Revolution', pp. 541-64.

<sup>48</sup> Joslin, 'London private bankers', p. 172.

<sup>49</sup> RBSGA, CH 206/1, ff. 71-5. 'P account' derives from the pawn account, and represents the bank's lending activities, see Quinn, 'Tallies or Reserves?', p. 41.

<sup>50</sup> RBSGA, CH 206/1.



1690	£161,395
1694	£117,033
1697	£119,216
1704	£172,000
1713	£112,000

Table 7: Child's Bank balances, 1690-1713 (Source: RBSGA, CH/206/1)

The firm continued to be run in a fairly consistent, conservative fashion. This can be seen in the management of the bank's cash reserves. In 1713, the bank had cash reserves of just under £60,000. Liabilities at the same point were roughly £110,000, implying that the bank had a liquidity cushion well in excess of 60%. This would seem to follow a consistent policy by the bank that started in the 1680s.<sup>51</sup>

While the first decade of the eighteenth century appears to have been a difficult period for the bank, as the eighteenth century progressed there was a sustained increase in the overall size of the bank. By the end of the century, the firm had increased roughly tenfold in size. Figure 16 shows the total assets of the bank at roughly five yearly intervals. It is noticeable that the growth of the bank was not particularly smooth. There was clearly a significant expansion of the business between 1713 and the mid 1720s, as total assets doubled, however the lack of records make it impossible to identify precisely when this change happened. The subsequent fifteen years show the firm expanding fairly steadily. This was followed by the period 1740-60 where growth was largely absent. A definite acceleration in the pace of expansion then occurs from 1760 onwards, although the American War of Independence and the French wars clearly caused the bank to retrench.

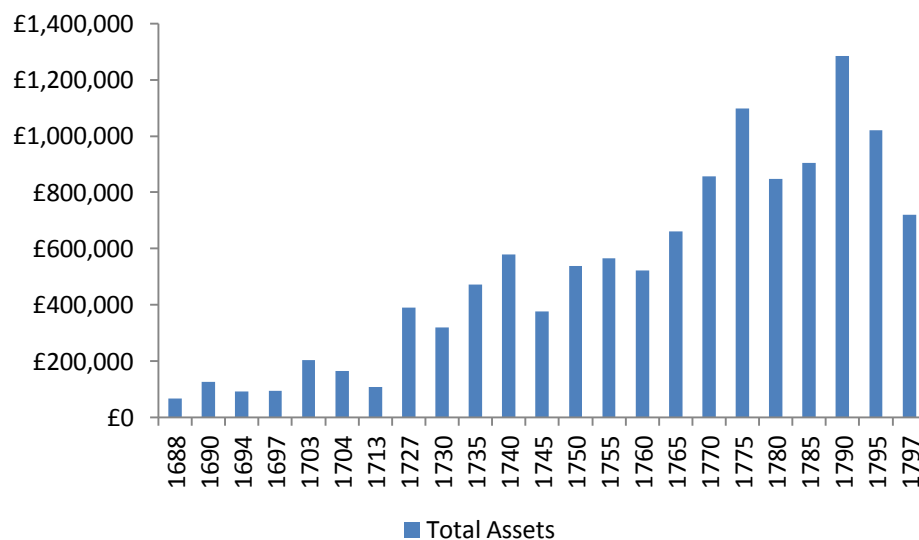


Figure 16: Child & Co total assets, c. 1688-1797 (Source: RBSGA, CH206/1-3)

The cash to assets ratio, as shown in Figure 17, provides a good indication of the liquidity of the bank. Over the century from 1685 to 1797 there is considerable volatility in this ratio, but in general one can identify a gradual downward trend. For the balance sheets that are available through to 1713, the average is 50%. Even in this early period, there was a trend

<sup>51</sup> Quinn, 'Tallies or Reserves?', pp. 46-50.

towards shrinking this value, as the seventeenth century balance sheets indicate an even higher ratio. The second quarter of the eighteenth century saw a further marginal decline in this figure, the average from 1727 to 1750 being 46%. However it is in the third quarter of the century where the real change becomes apparent. From 1754 to 1761 the average falls to 37%, and then falls again to 27% for 1762-1770. This indicates a growing ability of the partners to manage the bank more efficiently. The financial crisis in 1772 clearly had an impact on the behaviour of the partners, for by 1775 the ratio had returned to 37%. This return to a more liquid stance proved to be permanent for the last quarter of the century: the ratios were 40% in 1780; 53% in 1785; 43% in 1790; and 39% in 1795. On average across the period 1775-1797, the figure was 41%.<sup>52</sup> The bank was once again behaving in a more risk averse manner – it is noticeable that the highest cash ratio is to be found in the 1785, a year of peace and relative prosperity in Britain.

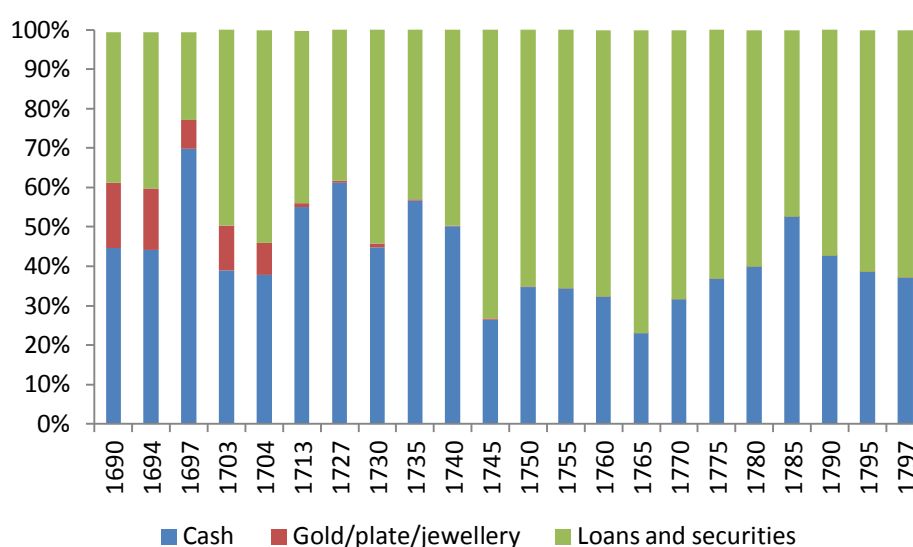


Figure 17: Child & Co simplified asset composition, 1690-1797 (Source: RBSGA, CH206/1-3)

The third quarter of the century was important for the bank. The data in Figure 16 demonstrates that the bank, with the exception of the period around the 1745 rebellion, had been operating with about £0.5 million of assets since the mid 1730s. This then changed substantially, as indicated in Figure 18. It is probable that the first attempt at expansion began in the mid-1750s, but that the onset of the Seven Years War clearly curtailed any potential development. The end of the war however marked a period of consistent expansion, as assets moved from £0.5 million to over £0.8 million over a decade. What is equally apparent is a change in behaviour, with the reduced emphasis on liquidity, which fell steadily during the war and remained at this lower level after its end.

<sup>52</sup> RBSGA, CH206/1.

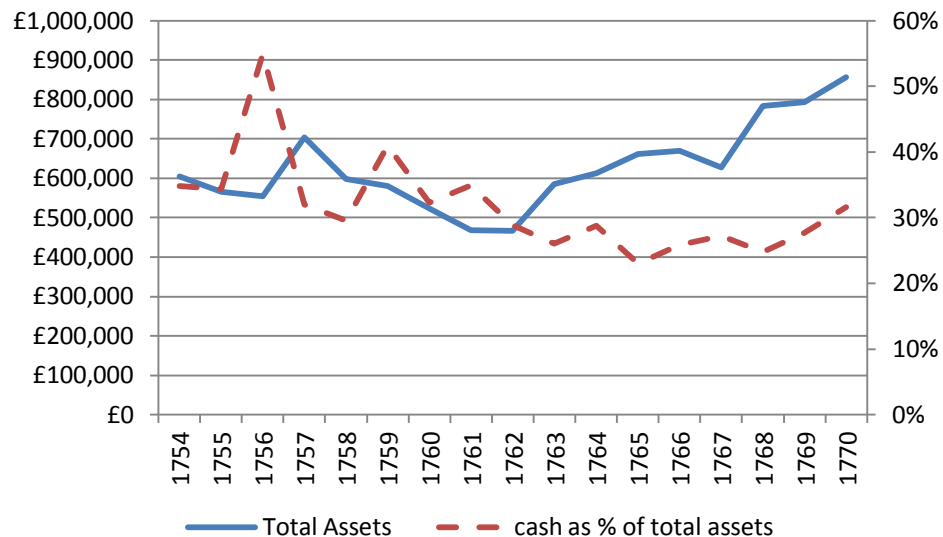


Figure 18: Child & Co assets and cash, 1754-1770 (Source: RBSGA, CH206/2)

By the second half of the eighteenth century the firm was consistently profitable. After growing strongly during the decade from 1757, profits remained largely around £20,000 for the following twenty years, before again seeing rapid, if somewhat erratic growth (Figure 19). The spike in profits in 1786 is not completely explained, however it probably reflects accumulated gains in investments in securities, as the accounts for that year include £47,909 credit from 'sundry stock acct'.<sup>53</sup> Similarly the reduced income paid to the partners in 1793 is related to losses on the stock account that were taken that year and totalled £20,083.<sup>54</sup> It is notable that the impact of the stock account seems to be booked around times of significant change in the partnership. Thus the loss in 1793 coincided with the death of Mrs Sarah Child, who had been running the bank, while in 1786 there also appeared to have been changes in the partnership.

<sup>53</sup> RBSGA, CH203/5, f. 4.

<sup>54</sup> RBSGA, CH206/6, f. 6.

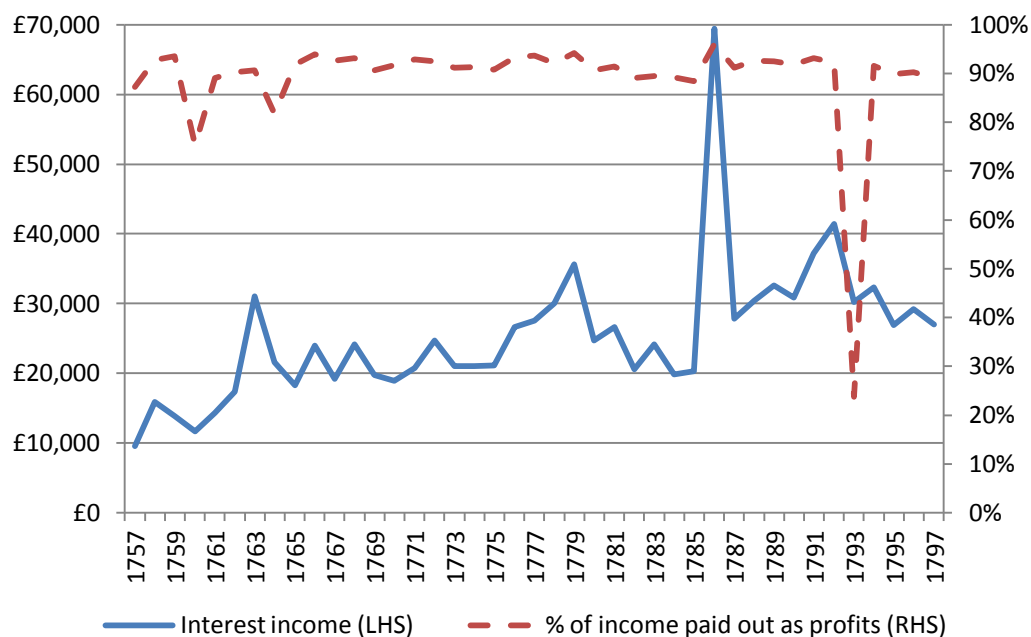


Figure 19: Child & Co Income and profitability, 1757-1797 (Source: RBSGA, CH203/1-6)

The growing scale of these banks required a commensurate increase in costs, of which staff formed one important part. The records of Child's, Drummond's and Goslings all provide a limited insight into the actual staffing of these firms during the period.

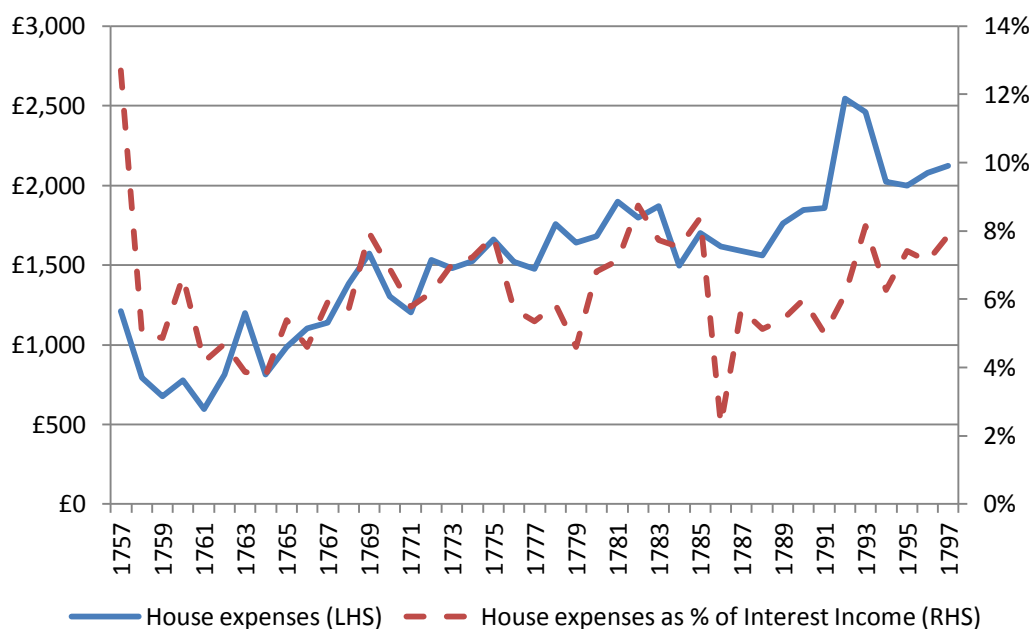


Figure 20: Child & Co House expenses, 1757-1797 (Source: RBSGA, CH203/1-6)

Child's saw a general increase in the cost of running its business over the second half of the century. 'House expenses' roughly quadrupled from just over £500 to almost £2,000. It should be noted that much of this increase does seem to reflect the growing scale of

business being conducted, as the ratio of costs to income stayed within a general range of normally 5 to 7% (Figure 20). From 1758 to 1761 the bank appeared to be employing five clerks, each earning £30 p.a. This was then increased to seven in 1762.<sup>55</sup> This still seems to have been the situation through the 1770s, although in some years there were 8 clerks (1772). In 1780 there was a substantial change, as the clerks are moved into different pay bands, with three continuing to earn £30, two earning £50 and 3 earning £60.<sup>56</sup>

One can see in this development the gradual emergence within banking of a structured career progression. At this stage no formal training system or professional body for bankers existed, for which reason the emergence of banking as a profession has been seen as a feature of the latter half of the nineteenth century. Instead, entry to a banking house was dependent on an apprenticeship scheme that was similar to that for entry into a merchant house. Associations of bankers were rare: although there were Associations of Country Bankers, these appear to have been temporary or focused upon addressing issues such as forgery and theft.<sup>57</sup> As such, bankers' 'professional' development has been neglected in comparison to other parts of the service industry, such as lawyers or doctors, which have had detailed studies of their development.<sup>58</sup> Some historical analysis of the pay and capabilities of bankers in the earlier stages of their development is emerging.<sup>59</sup>

Aside from staff costs, other significant operational costs included postage, which cost the bank £288 in 1786 or 18% of total house expenses in that year.<sup>60</sup> This was an expense that all bankers were aware of and sought to minimise. The easiest way to do this was through having an MP as a member of the bank, as they had the right to frank the mail, a saving that has been suggested could be worth £1,300 per year.<sup>61</sup> Thus the early letters of Forster, Lubbock & Co constantly beseeched their clients to address all their correspondence to John Buller at Abchurch Lane, as Buller's position as an MP allowed them to save on postage costs.<sup>62</sup> Ryton wrote of the Western Bank of Exeter that this bank's arrangements for the appointment of a London agent included 'the curious proviso that one of the partners of the London bank should be a member of the House of Commons'.<sup>63</sup> In the context of the desire to minimise expenditure on postage, and the advantages afforded by an M.P. in doing so, this stipulation does not appear as curious as Ryton suggests, but was rather a sensible business decision.

<sup>55</sup> RBSGA, CH201/1/1-2, f. 8, 12, 16 and 20.

<sup>56</sup> RBSGA, CH203/3, the data for 1780 is on f. 48.

<sup>57</sup> Edwin Green, *Debtors to their Profession, A History of the Institute of Bankers 1879-1979* (Methuen London, 1979), p. xviii and chapters 1 and 2.

<sup>58</sup> See Prest, *Professions in Early Modern England*, passim.

<sup>59</sup> Anne Murphy, 'Learning the business of banking: The management of the Bank of England's first tellers', *Business History* 52.1, (2010) pp. 150-68; H.M. Boot, 'Salaries and Career Earnings in the Bank of Scotland, 1730-1880', *EcHR* 44.4 (1991), pp. 629-53.

<sup>60</sup> RBSGA, CH203/5, f. 4.

<sup>61</sup> Dawes and Ward Perkins, vol. 1, p. 37. The figure of £1,300 is cited from Ellis's work on the eighteenth century post office and probably refers to total savings to the MP, rather than to the bank.

<sup>62</sup> As an example of this see KHAC, EK-1979/B2, Messrs Lemon & Co to Mr Thomas Douglas, 27 July 1773.

<sup>63</sup> John Ryton, *Banks and Banknotes of Exeter 1769-1906* (Exeter, 1984), pp. 67-8.

While the example of Child's Bank shows the development of a well-established bank, Messrs Drummond & Co's development provides something of a contrast, being a later foundation. Drummond's Bank was created by Andrew Drummond in 1712 or 1713 in Charing Cross, London. As a former silversmith, his background was like many of London's other private bankers of the period who originated from the precious metal trades. Andrew Drummond originated from Edinburgh, and the business he established maintained strong Scottish connections throughout the eighteenth century, one of the most important customers being the Duke of Chandos. Some of the Scottish clients are known to have had Jacobite sympathies.<sup>64</sup> Other Scottish aristocratic customers included Lord Glenorchie, the Duchess of Hamilton, Earl Lowtherdale and Lords Charles and James Murray.<sup>65</sup> Equally important in developing the bank prior to 1725 were its connections to the military, specifically through Andrew's relation John Drummond, which allowed the bank to profit from some of the army reforms undertaken by George I.<sup>66</sup> This military connection was not unique among London's bankers, although it was a new type of business distinct from that carried out in the seventeenth century. Melton also identified the bank of John Ewer, for whom information is sparse, but who was certainly operating a 'military' bank between 1731 and 1734. The most famous example is that of Messrs Cox & Co, which developed after Lord Ligonier made his secretary Cox agent for the 1<sup>st</sup> Foot Guards in 1758. The secretary in time accumulated the agency work of most regiments of the British army.<sup>67</sup>

In the first year of operation, from November 1717 to January 1718/19, the firm lent out just over £4,600. Most of this would appear to have been for short durations – within the same period, just over £4,000 was repaid by customers, implying outstanding loans of only £605.<sup>68</sup> Across this period, 32 'client' accounts were operational, which includes four that belonged to various members of the Drummond family. This yielded a profit from interest earned of £54 15s. However this does not give an entirely representative view of Drummond's banking business, for he was also carrying on a financial relationship with John Gordon, which constituted the bulk of the banking transactions. It has been suggested that Gordon provided the original working capital for Drummond's banking business.<sup>69</sup> This business was more profitable – earning almost £440 worth of income in its first year, set against a commission payable to him of £113 (i.e. a net profit of £326).<sup>70</sup> After a few years the banking business obviously grew to some extent, but the relative importance of the different functions barely changed – interest income by 1720-21 had risen to £137, with profit from business with Gordon amounting to £386, with a total loan issuance of £3,290,

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<sup>64</sup> Hector Bolitho and Derek Peel, *The Drummonds of Charing Cross* (London, 1967), pp. 17-26.

<sup>65</sup> RBSGA, DR427/1, customer ledgers 1717-22.

<sup>66</sup> Melton, 'Deposit banking in London', pp. 44-5; Bolitho and Peel, *The Drummonds*, p. 29, 55-58. The army agency business would remain important through to at least mid-century. The goldsmith ledgers run until 1737, but the bank clearly was involved in the sale of plate and jewellery in the 1740s.

<sup>67</sup> For Ewers, see Melton, 'Deposit banking in London', pp. 42-4, 49; for a short overview of Messrs Cox, see Sayers, *Lloyds Bank*, pp. 190-3.

<sup>68</sup> RBSGA, DR 427/1. Drummond's full balance sheets for this period, and the rest of the eighteenth century have been lost, or never existed.

<sup>69</sup> Melton, 'Deposit banking in London', p. 44.

<sup>70</sup> RBSGA, DR 427/1.

of which most was again repaid within the year.<sup>71</sup> Much of the bank's growth therefore occurred after the collapse of the South Sea Bubble.

In 1718, at the end of its first full operational year, the scope of Drummond's operations was limited. Across this period the bank made a profit of just over £315, which was all attributable to Andrew Drummond himself.<sup>72</sup> During the 1720s and 1730s, Drummond's experienced remarkably quick growth, after which it settled to a more sedate pace. One way this can be seen is in the bank's discounting of bills (Figure 21).

Year	Total Bills discounted (include those carried over from previous year)
1735/6	£12,476
1740/1	£29,415
1744/5	£25,817
1750/1	£36,133

Figure 21: Drummond's discounting activity, 1735-1750 (Source: RBSGA, DR427/1-154)

Although turnover of the bank did increase significantly, profit figures were not as encouraging. In 1743/44 for example, profit was only £719 13s 9.75d. However this is not a bad performance in terms of total income, which was £3,835, representing a profit margin of almost 19%. The profit was set towards a category called 'stock in hand', which after the year's injection stood at -£356.<sup>73</sup>

Given the bank was in a developmental stage, Drummond's remained involved in the goldsmith business through to 1737. Even after this date they still regularly accepted jewellery and plate as security for the loans they made. Records show for example the Duchess of Atholl using a ring to attempt to raise the sum of £60 to overcome cashflow problems caused by her family and ill-health. The problem with such a process of course was attributing an acceptable value to the collateral. In this case, although she initially valued the ring at £60, it was subsequently only allowed at £40.<sup>74</sup> Other instances can be found where the bank was involved in jewellery related transactions in 1746.<sup>75</sup> Lord Viscount Malpas borrowed £1,500 from the bank in February 1731, on security of 5,873oz of plate. This had supposed to be for a nine month period, but it would appear that the money was not repaid, for in March 1745, 4,917oz of plate was sold raising £1,286 towards the settlement of this debt.<sup>76</sup>

The military connection was maintained through Henry Drummond, who, in 1765, went into partnership with Richard Cox, previously a client of Drummond's Bank. This connection generated a substantial increase in business with the Treasury for the bank.<sup>77</sup> The involvement with military personnel also meant that the bank also engaged in overseas

<sup>71</sup> Note these figures may understate year slightly, as dates for these figures appear to run from May 1720 to Jan 1720/21, although reason for starting in May unclear.

<sup>72</sup> RBSGA, DR427/1.

<sup>73</sup> RBSGA, DR427/1.

<sup>74</sup> RBSGA, DR/402, Duchess of Atholl to Drummonds, 18 Sept and 17 Oct 1741. Interestingly, she addresses Drummond as a 'bankier', not a goldsmith by this point.

<sup>75</sup> RBSGA, DR/398, 24 Oct 1746, 3 April 1746.

<sup>76</sup> RBSGA, DR/402, 11 Feb 1731.

<sup>77</sup> Bolitho and Peel, *The Drummonds*, pp. 55-8.

transactions. For example, a few bills have survived that suggest that the bank was involved in financing the British army in Senegal in the 1760s. One Major James Money appears to have been a client of Drummond's, for he was the beneficiary of two bills totalling £400 that were designed to reimburse him for money spent by the Royal Artillery in that country, which in both instances he made payable to Drummond's.<sup>78</sup>

Although full balance sheets for the firm are not available, data for the bank's lending and discounting activities are. The lending activities of the bank were relatively limited in the first half of the century. Indeed, Melton argues that it was only by the 1740s that the bank managed to really move beyond simple cash-keeping operations, dominated by discounting, to assume the functions of a genuine bank with extensive lending operations.<sup>79</sup> The second half of the century provided a period of sustained growth, with total lending surpassing £0.6 million by 1795 (Figure 22).

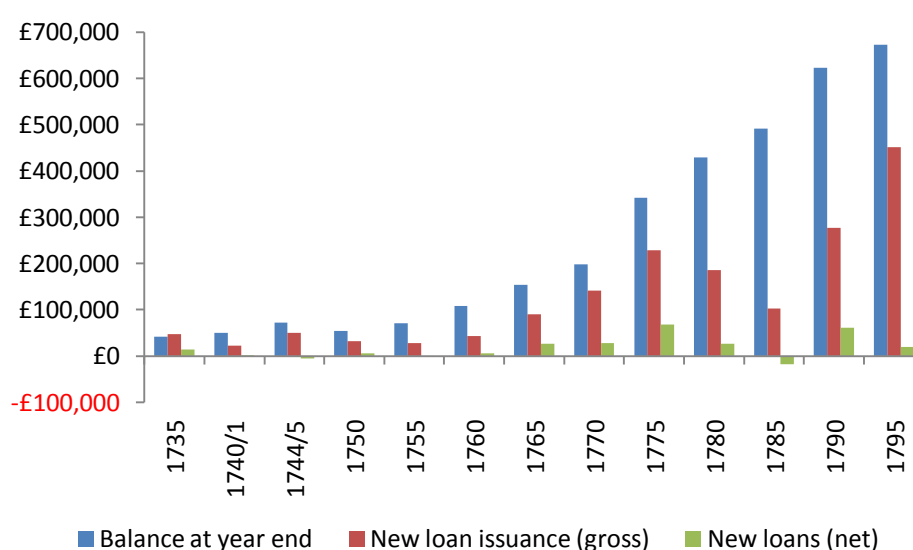


Figure 22: Drummond's lending activity, 1735-1795 (Source: RBSGA, DR427/1-154)

If the pattern of loan growth between 1749 and 1770 is any indication, then the increase in the firm's balance sheets was a fairly gradual process (Figure 23). The Seven Years War led to a reduction in the firm's lending activities, however this was relatively gradual. It also appears to have been driven by a severe decline in the issuance of new loans, indicating that customers were perhaps slower to repay existing outstanding loans than had been the case in peace time.

<sup>78</sup> RBSGA, DR/398, 23 June 1760.

<sup>79</sup> Melton, 'Deposit banking in London', p. 45.



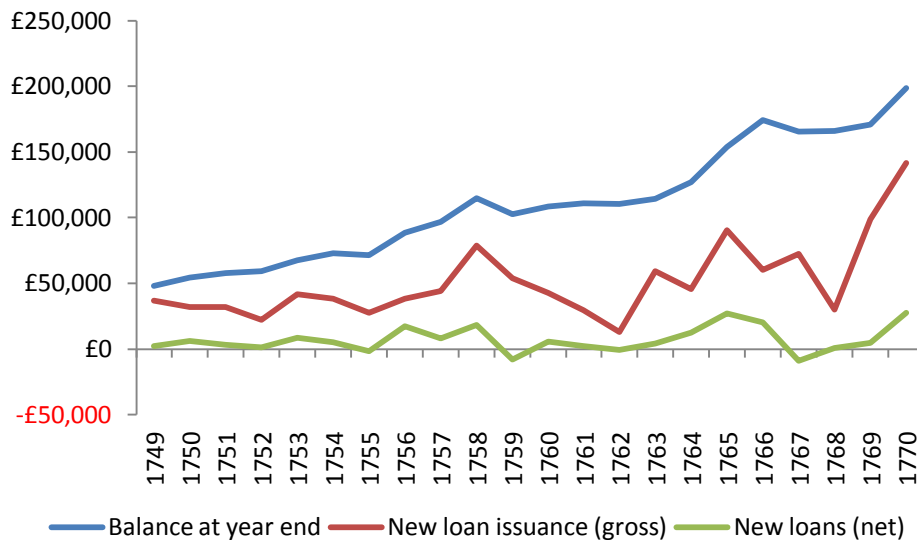


Figure 23: Drummond's lending activity, 1749-1770 (Source: RBSGA, DR427/1-154)

The growing volume of business also generated a growing income stream for the bank (Figure 24). However it is noteworthy that this increased income did not immediately translate into an improved headline profit. Only after 1766 was there an increase in the bank's overall profitability to match the growing revenues.

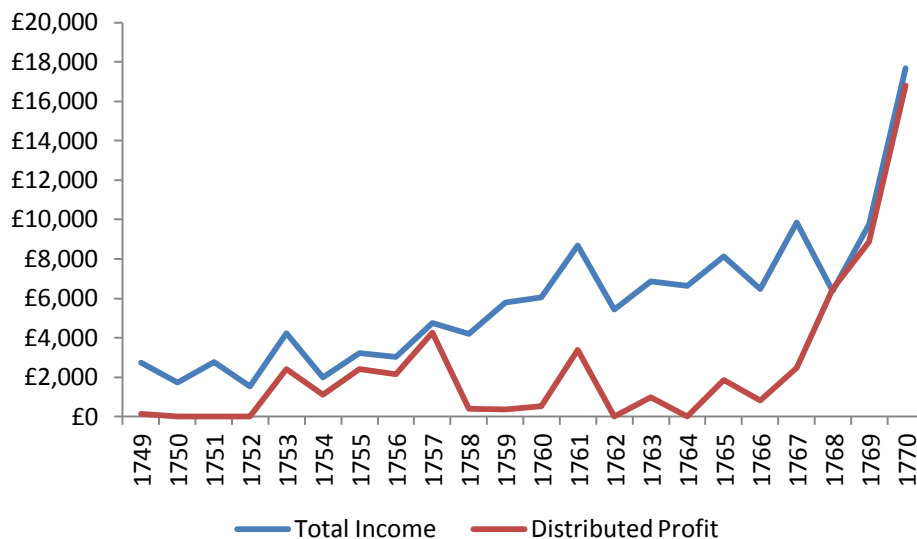


Figure 24: Drummond & Co Total income and profits, 1749-1770 (Source: RBSGA, DR427/1-154)

The growth of the bank continued unabated over the last thirty years of the century (Figure 25), although the French Revolutionary Wars did cause a slight setback.

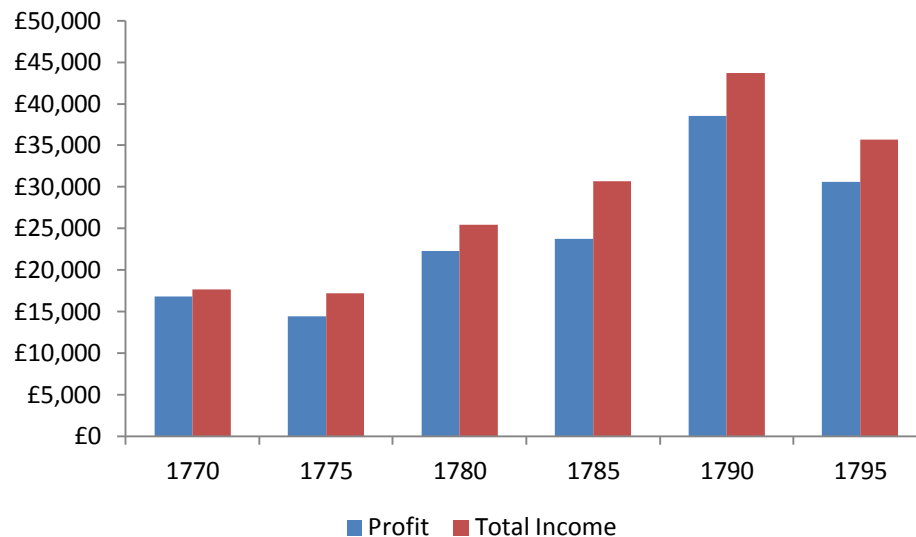


Figure 25: Drummond's Bank profitability, 1770-1795 (Source: RBSGA, DR427/1-154)

This expansion is visible in all the activities the bank undertook. The value of bills the bank discounted totalled over £130,000 in 1797.<sup>80</sup> Interest income in the same year from the main interest account alone totalled just under £24,000, supplemented by another £4,000 and £800 from two 'old' Interest accounts. All of this was disbursed amongst the partners of the bank as profit.<sup>81</sup> The development of Drummond's Bank is possibly typical of a new bank established in the relatively difficult economic climate of the first half of the eighteenth century. There was a dependence on a handful of key accounts, while the transition to a genuine banking business was slow. However once the conditions improved the bank fully participated in the faster development of the second half of the century.

While Drummond's and Child's possessed a client base and operational model most commonly associated with West End banks, not all West End banks are quite so easily classified. Some banks pursued what has been described as a more 'flexible policy', of which a key example is Goslings.<sup>82</sup> This bank benefited from the diversity of its partners after Gosling purchased the business. Gosling himself was originally a bookseller and printer, with substantial legal connections, while his partner Samuel Bennett was a retired East India trader. This meant that it developed a more regular 'West End' business with its literary and legal clients (as well as aristocrats and gentry), but also had a strong merchant connection with the Indian nabobs, such as Clive. By the end of the century the business had developed into a large bank with over 1,000 clients, issuing mortgages and loans upon stock, but with the addition of a substantial discount business and agencies for six country banks.<sup>83</sup> Thus although this bank is treated from a 'West End' perspective, it had commonalities with City bankers.

<sup>80</sup> RBSGA, DR/427/152.

<sup>81</sup> RBSGA, DR/427/154.

<sup>82</sup> Joslin, 'London private bankers', p. 178.

<sup>83</sup> Ibid, p. 178. For Gosling's agency business see above, pp. 116-8.

The general outline of the development of Goslings Bank is relatively well documented. Goslings possessed one of the most widely diversified banking businesses in London at this point of time in terms of its client base. Given this situation, the bank remains relatively under-researched, especially given the fact that the surviving records of this bank are relatively extensive. Melton's article focuses on the transition period of the 1720s-1750s, while the story of the international side of Goslings' business has not been told at all.<sup>84</sup> This section will touch on the international business, but its main contribution lies with the domestic business from 1760 to 1800.

Sir Francis Gosling himself originated from one of the less common backgrounds for bankers, being a stationer or bookseller until the 1740s, when he sold his interest in that profession in order to concentrate upon his new business. The bank has been described as the first bank in London to emerge from a commercial source.<sup>85</sup> This statement is misleading, for his entry into banking was facilitated through the purchase of a bank previously owned by the goldsmiths Abraham Fowler, James Rocke and John Simpson in 1742. The origins of this business have been traced back to the goldsmith William Pinckney in the 1650s, and as such were not that unusual.<sup>86</sup> The reasons for Gosling's career change from publishing to banking are unclear. The methodical disposal of his publishing stock three years after his father Robert's death in 1741 has led to suggestions that it was a considered choice, perhaps due to his publishing business being less successful than he wished.<sup>87</sup> During the early parts of the 1710s, it is noteworthy that Robert Gosling's publishing career is described as modest. It only developed significantly after 1717, when he gained patents for legal printing. Francis Gosling had probably gained some experience of finance, as it is known that his father's firm performed some financial intermediation as early as 1713, holding clients' deposits and putting them out at interest.<sup>88</sup> Melton argues that while there is no way to determine the size of Robert Gosling's financial dealings, or their relative importance to his publishing business, the evidence however does show his function as cashier, broker, mortgage arranger, and deposit taker, lender (on a small-scale) and discounter of bills of exchange from 1713 through to the 1730s.<sup>89</sup>

The only surviving method on which to assess the size and strength of the bank that Gosling had purchased was its profitability at this stage. In the Fowler era, costs were relatively stable and profit tended to be a function of two main sources of income: interest earned on notes and bonds (loans) and the 'Gains on sundry Acct in the Stock Book', referring to the investments made by the bank in stocks and shares.<sup>90</sup> The overall picture of the profitability of the bank under its goldsmith owners is shown in Figure 26.

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<sup>84</sup> Melton, 'Robert and Sir Francis Gosling', p. 75.

<sup>85</sup> *Ibid.*, p. 60.

<sup>86</sup> *Ibid.*, p. 60 and p.73.

<sup>87</sup> *Ibid.*, pp. 72-3.

<sup>88</sup> *Ibid.*, pp. 61-5. Gosling benefited from the growth of the legal profession and the printing of the Statutes at large.

<sup>89</sup> *Ibid.*, pp. 70-2. The deposit taking is shown by two banker's notes that survive for the 1730s.

<sup>90</sup> See for example BGA, G&S, 0130/0663, March 1727/8, f.7.

Year	Profit	Interest (loan) contribution
March 1727/8	£1,320	£251
March 1728/9	£671	£582
Sept 1729	£655	£305
Sept 1730	£1,624	£514
Sept 1731	£952	£415
Sept 1732	£1,220	£523
Sept 1733	-£705	£371
Sept 1734	0	£407
Sept 1735	£618	£354
Sept 1736	£942	£272
Sept 1737	0	£101

Figure 26: Goslings (Fowler, Rorke and Simpson) Profit and Loss in the 1720-30s (Source: BGA, 0130/0663)

The bank was recapitalised in September 1734, when Fowler and Simpson each injected £148 13s 2d (Rorke would no longer appear to be a partner). This presumably related to the loss incurred the year before, the difference between the new capital and the loss being covered by the profits of 1734.<sup>91</sup> Equally one should note that in 1737, although there was technically no profit, in practice John Simpson paid himself £701 18s 2.5d, while Fowler was not mentioned at all, suggesting that the bank was not loss making in this year.<sup>92</sup> Yet one still gets the impression that the 1730s were a time of difficulty for the bank. Although in some years it might yield an apparently healthy profit, this was volatile. Potentially as concerning is the apparent continual decline from 1732 onwards in the income derived from interest on standard loans. This should have been the core earnings driver of the bank. Yet for reasons that cannot be established without access to the actual books, they do not appear to have been able to maintain this business, let alone grow it. This gives an indication why Gosling might have been able to buy the bank in 1743. One gets the impression of an averagely successful business at best.

Sir Francis Gosling's partners in the new endeavour were John Ward and Samuel Bennett. Gosling's purchase of another banking firm, with all previous partners departing, has significance in its own right, representing probably the first known bank takeover. The continuation of accounting practices of the bank suggests that Gosling in this area maintained some consistency with the previous business. Francis Gosling achieved a remarkable, quick increase in the scale of the bank, growing its clientele to 480 persons in 1751-54 from 187 in 1719-1722, whilst largely maintaining the accounts of the old customers.<sup>93</sup>

Alongside a more general West End banking business, Goslings ran an international business based upon his connection to Bennett. Records are incomplete, yet surviving correspondence from the early to mid 1780s does provide an insight into the needs of the clients and the operation of the financial markets at this time. It is well-known that the connection with Samuel Bennett provided an influx of clients related to the East India company/merchants. These were for the large part working in India, but in the expectation of eventually returning to England. One of their major concerns therefore was the

<sup>91</sup> BGA, G&S, 0130/0663, ff. 77, 87.

<sup>92</sup> BGA, G&S, 0130/0663, f. 106.

<sup>93</sup> Melton, 'Robert and Sir Francis Gosling', p. 74.

remittance of the fortunes they were creating to England, and it was in this way that Goslings could assist their clients. These letters indicate that Goslings actively managed the financial affairs of some their clients whilst they were abroad. A common request in letters to the bank is that they dispose of diamonds that have been shipped to London. The funds raised through the sale would then be placed to the benefit of the sellers' account. Thus William Popham in March 1783 requested that Goslings consign a shipment of diamonds to the Queen's jeweller, Mr John Duval. Furthermore, he provides instructions that the resulting money should be invested in the Funds on his behalf. This implies that the bank needed a strong connection to diamond merchants in London. It would also indicate that it was one of the easier ways of moving money out of the country. Alongside the consignment of diamonds, there was the more standard banking business of dealing in bills: the letter mentions bills for the benefit of Popham from Madras for £2,721 and from China for £2,326 that had been remitted to the bankers.<sup>94</sup>

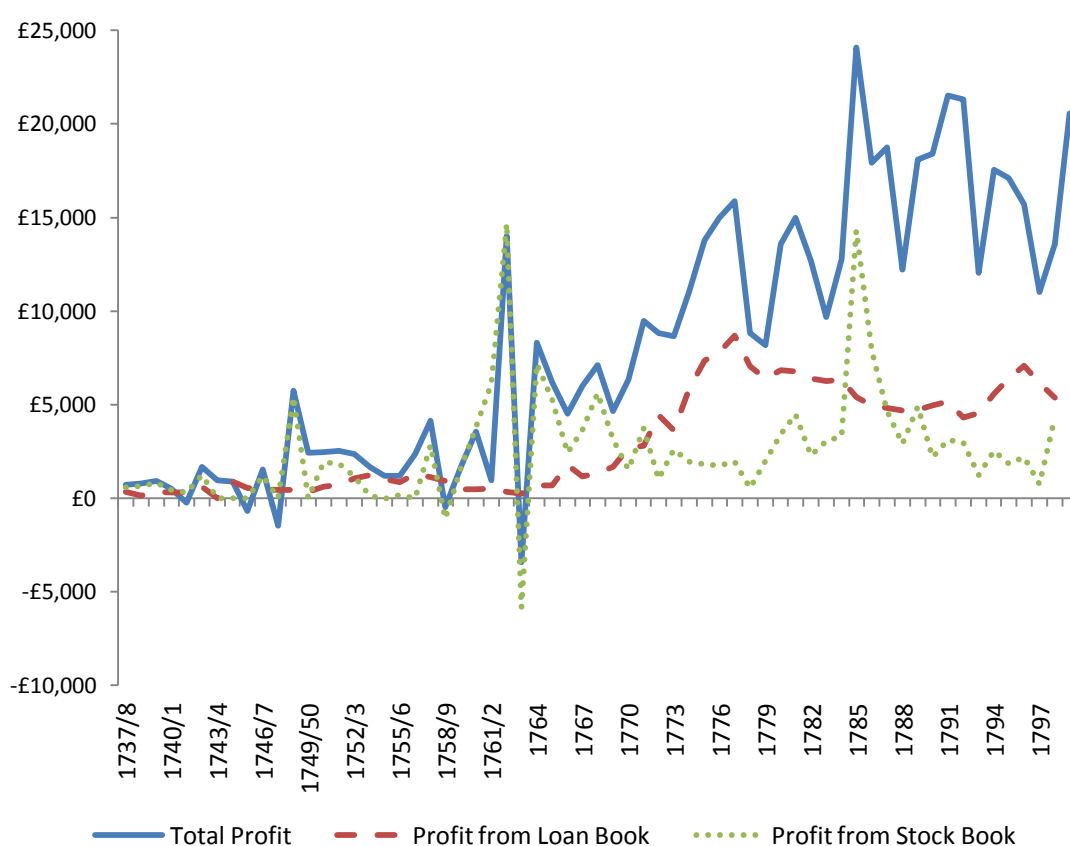


Figure 27: Goslings Bank profits, 1737 to 1799 (Source: BGA, G&S, 0130/664-670)

It was not only customer numbers that grew, but also profitability and turnover. Melton provides some information on this, showing that loans and interest jumped from £2,164 for 1730-34, to £4,113 for 1744-9. Turnover in the stock accounts increased 3.3 times from the figure of £3,516 in 1730-4. In the first year under Gosling's ownership, the bank produced a

<sup>94</sup> BGA, G&S, 0130/1074, William Popham to Messrs Gosling, Patna 24 March 1783.

profit of £474.<sup>95</sup> Net profits grew five times by the 1760s compared to the preceding goldsmith era, earning the partners £11,552 in their first five years (despite a loss of £1,388 in 1747-8), growing to £26,795 between 1758 and 1762.<sup>96</sup> The real growth and development of the bank however happened in the period after 1762 (Figure 27).<sup>97</sup> Total profits really started to rise from about 1752. However in those ten years this was driven by profits from the stock book, which were very volatile, as seen in the period 1758 to 1763. What distinguished the period of about 1762 to the late 1770s is that the bank managed to consistently grow its profits from the loan book, which were much steadier. Although the profits from this source fell back slightly from their peak, for the last two decades of the century it rarely fell below £5,000 per annum. Total profits were complimented by a more volatile, but usually positive, contribution from the stock book.

It is necessary to address how this profit was generated. The balance books of Goslings are only available from December 1786 onward, when they were calculated twice annually, in June and December. Measured in terms of its assets, the company had registered limited growth in the years between 1786, when assets stood at about £484,000 and Dec 1799, when they stood at £558,000. The picture of a bank which had stagnated however would be misleading. During the period from 1786 to the end of 1791, the bank had actually achieved some considerable growth, with assets reaching £700,000 (Figure 28). It would appear that the run-up to the French Revolutionary wars led to a rapid fall in the firm's size. Assets stabilised around the £500,000 mark, before the pressures prior to the crisis of 1797 led to another decline, from which the bank recovered more swiftly.

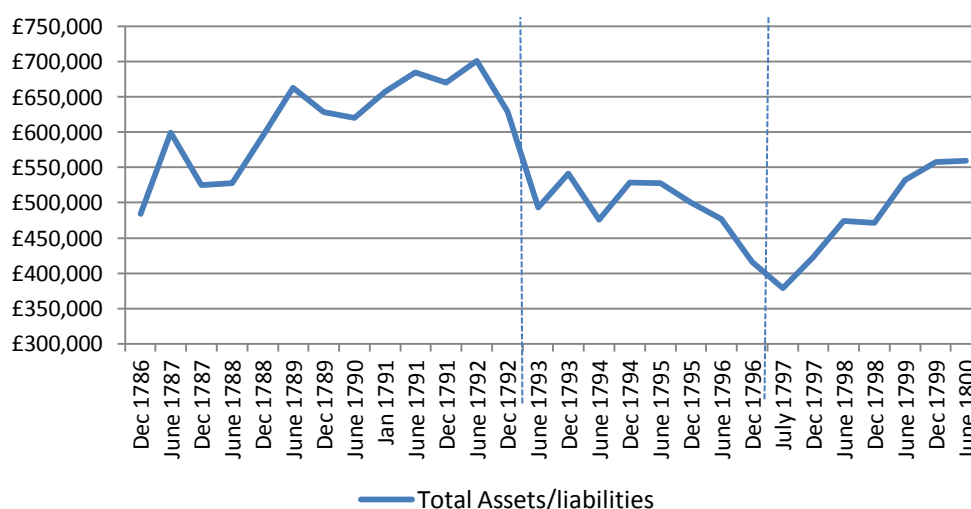


Figure 28: Goslings Bank total assets/liabilities 1786 to 1800 (Source: BGA, G&S – 0130/0716 and 0130/0725)

<sup>95</sup> Melton, 'Robert and Sir Francis Gosling', p. 73.

<sup>96</sup> Ibid., pp. 74-5, states turnover was £11,739. This figure actually represents repayments for stock purchases made for their clients.

<sup>97</sup> Unfortunately the stock books and loan books that might have been able to explain these figures in greater detail are no longer available.

Table 8 provides an illustrative balance sheet for the bank in the middle of this period, in June 1794, when total assets and liabilities were £475,859 11s 11d.<sup>98</sup> It highlights some general points that were valid throughout this period, especially with regards to the bank's liabilities. Deposits, over which the bank had limited control, were the main liability of the bank, with 'creditors in ledger' accounting for 93% of the total on average from 1786 to 1798. Changes in the size of the deposit base drove the changes shown in Figure 28. Note issuance, as with most London banks was of minor consequence by this stage. The bank usually had access to funds from the country banks for which it was an agent, however these were relatively small in terms of the bank's total liabilities. It is not completely clear what the money owed to the partners represents, but it is likely that it refers to either retained earnings or part of the capital paid in by the partners. Finally on the asset side, it is worth noting that the cash at hand and the balance labelled Bank, presumably the bank's reserve at the Bank of England, are fairly representative of the sort of ratio that the bank maintained throughout this period.

Assets		Liabilities	
Public Funds	£37,592	Creditors in Ledger	£442,964
Lent at interest	£174,279	Bearer Notes	£3,692
Debtors in ledger	£21,946	Other Banks	£11,314
Notes discounted	£139,504	Partners	£17,683
Cash	£18,955	Other	£199
Bank	£83,582		
Total	£475,858		£475,851

**Table 8: Goslings balance sheet, 28 June 1794 (Source: BGA, G&S, 0130/0716)**

What is also immediately apparent is that in 1794 investments in the public funds were extremely low, with the principal investment being £22,119 in East India Bonds (60% of the total). One suspects that the reason for the maintenance of this position was the bank's close connection to the East India trade. Another £4,000 of this total was accounted for by property in Fleet Street, which is of course not a traded security and one suspects represent the premises of the bank.<sup>99</sup> In a more normal year, investments in the public funds were more wide-ranging. In December 1786, Goslings' most substantial investments were in Bank 3% Consols (£30,250), followed by Navy Bills (£24,935), East India Company Bonds (£15,638) and Exchequer Bills (£15,519). Together these accounted for just over 80% of total investment. However these were supplemented by a mixture of slightly more unusual investments, including Mercer Company bonds (£9,870), various life annuities and City Bonds.<sup>100</sup>

<sup>98</sup> BGA, G&S, 0130/0716, cash balances 28 June 1794.

<sup>99</sup> Mercer Company bonds were the other substantial investment, amounting to 17% of the total. There are no investments in Bank stock or Consols.

<sup>100</sup> BGA, G&S, 0130/0716, 30 December 1786.

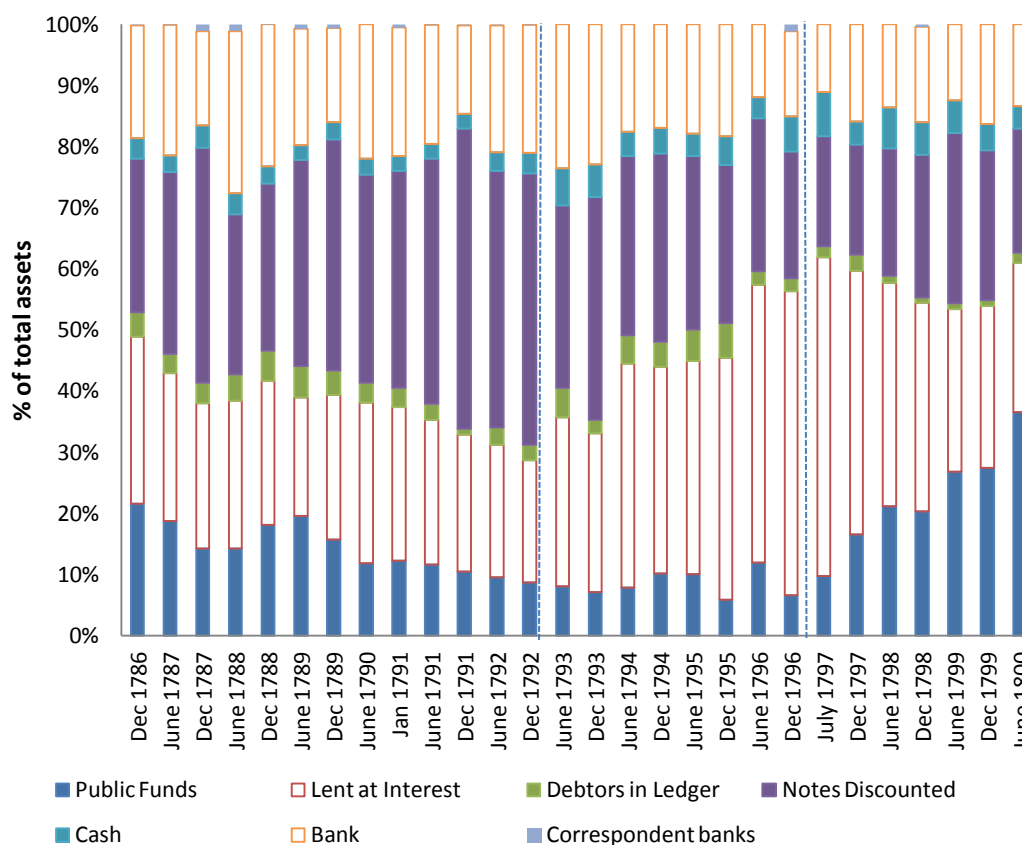


Figure 29: Goslings Bank asset composition, 1786-1800 (Source: BGA, G&S 0130/0716, 0130/0725)

The change in the bank's asset composition is illustrated in Figure 29. The key variables in Goslings' balance sheet were the relative balance between lending at interest and discounting, with the proportion of assets devoted to the public funds also showing some volatility. It can be seen from examining figure 28 in conjunction with figure 29 that the key variable in where customer's deposits were invested was the firm's discounting activities. As the firm's balance sheet expanded from 1786 to 1791, the proportion of total assets accounted for by discounting also expanded. The shrinking of the firm from 1792 to 1796 saw the proportion of assets devoted to discounting fall. The firm was shrinking its discounts, but still gradually increasing its lending at interest. As the balance sheet began to expand again in 1797, these new deposits appear to have been used for significant investment in the public funds, which grew from less than 10% of all assets to over 45% by 1800. This probably reflected a common pattern amongst bankers of investing heavily in government securities while they were at reduced prices during the war, hoping to benefit from capital gains when the war ended.<sup>101</sup>

As well as providing an insight into the operation of the bank, this balance sheet data allows us to make some judgements on the profit figures that were shown above. Using the average of the June and December balance each year, it is possible to calculate an annual return on assets and capital (Table 9). The returns on capital were quite astounding; however these figures need to be treated with a degree of care. A note following the

<sup>101</sup> Joslin, 'London bankers in wartime', pp. 156-77.



account of December 1786, indicating that a new partnership had been formed at that point between Robert, Francis and William Gosling, is useful in demonstrating how bankers thought about the bank's capital. The articles of partnership stated that the bank ought to have a capital of £16,000, of which Robert Gosling was to contribute £9,000, Francis Gosling £5,000 and William Gosling £2,000. This figure however did not appear on the balance sheet, for which an explanation is offered in the ledgers:

whereas there is no present occasion or Necessity for our advancing of the said sum for the purposes aforesaid, now we do hereby declare that we have neither of us brought in the said sums, which declaration of ours is intended to obviate any demand that might be made by the Executors or Administrators of either of us first departing this life, during the continuance of the said partnership.<sup>102</sup>

This of course implies that the partners did not need to pay in any capital to cover its day-to-day operations, but was rather a liability to be made available at need. A similar statement is made after the balance sheet of December 1794, at which point the nominal capital of the bank was £48,000, but this was not paid in.<sup>103</sup> Such a situation would be unthinkable today, but worked under a system of unlimited liability, because all the partners' wealth was pledged to the bank anyway. This statement by the partners confirms the opinion of Price that the actual size of the capital of the bank was largely irrelevant.<sup>104</sup> The situation was not unique either: at its initial establishment, the firm of Smith & Payne had no capital stock either. If capital was considered necessary at a later stage, it would be subscribed in the same proportion as which the profits were shared. This would be in the form of a loan which paid interest at 4%.<sup>105</sup> Paid-in capital was then only necessary for newly formed banks, as it provided a source of 'till money', or in the case of provincial banks, a balance to lodge with the London agent.<sup>106</sup>

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<sup>102</sup> BGA, G&S, 0130/0716, 30 Dec 1786.

<sup>103</sup> BGA, G&S, 0130/0725, 28 Dec 1794. Francis and William Gosling were both liable for £22,000, Benjamin Sharpe for £4,000.

<sup>104</sup> Price, *Capital and Credit*, p. 80.

<sup>105</sup> Leighton-Boyce, *Smiths the Bankers*, pp. 69-70.

<sup>106</sup> Pressnell, *Country Banking*, pp. 225-29.

Year	Assets	Return on Assets	Capital	Return on Capital
1786	£484,016	3.7%	£16,000	112%
1787	£562,479	3.3%	£16,000	117%
1788	£561,246	2.2%	£16,000	76%
1789	£645,653	2.8%	£16,000	113%
1790	£638,896	2.9%	£16,000	115%
1791	£677,330	3.2%	£16,000	134%
1792	£665,309	3.2%	£16,000	133%
1793	£517,386	2.3%	£16,000	75%
1794	£502,463	3.5%	£48,000	36.6%
1795	£514,065	3.3%	£48,000	35.7%
1796	£446,662	3.5%	£48,000	32.7%
1797	£400,643	2.7%	£48,000	22.9%
1798	£472,753	2.9%	£48,000	28.3%
Average	£545,300	3.0%	£28,308	79%

Table 9: Returns of Goslings Bank, 1786-1798 (Source: BGA, G&S, 0130/0668-670)

The bank managed to maintain a relatively stable return on assets, averaging 3% over this period, with a standard deviation of 40 basis points, while the return on capital from 1794 onwards is in the region of what Price found for a sample of banks at the time. By way of comparison, profits for Hoare's bank are shown in Figure 30. There is a notable dip in absolute profits around the period of 1757, however in general the bank was making similar profits to Child's. The growth trajectory is also remarkably similar from that point onwards. Profits peaked at just over £25,000 in the mid 1760s, slightly higher than those achieved by Child's. They then remained in the region of £20-25,000 through to the mid-1780s, equivalent in general terms with Child's performance over the period.

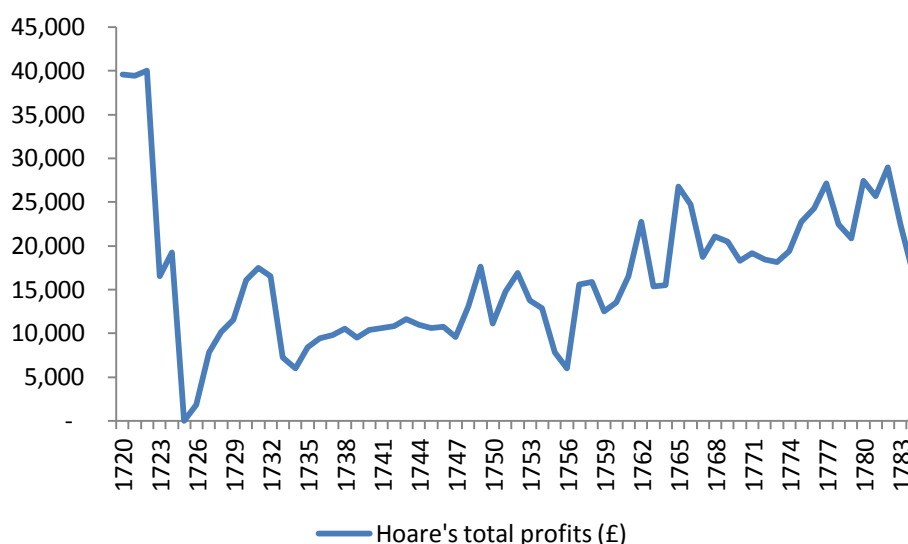


Figure 30: Hoare & Co annual profits, 1720-1785 (Source: C.G.A. Clay, 'Henry Hoare, banker, his family and the Stourhead estate', pp. 136-38)

In many ways, Child's business was similar to Hoare's at this point, and would remain so throughout the eighteenth century. In 1702, 38% of Hoare's balance sheet still related to its goldsmith business, with customers often inclined to use the firm as both banker and

jeweller. Clients expected the bank to make investments in government securities and collect money owing to them in the capital, as well as providing certain non-financial functions, such as watch repairs or purchases of tea.<sup>107</sup> At that stage it was unclear if the firm was destined to be a bank, as Richard Hoare had aspirations of breaking into the diamond trade. These ambitions floundered through a combination of factors, including insufficient proficiency in the Dutch language and overpricing of diamonds. At Richard's death in 1719, the bank still carried £24,800 of diamonds on its balance sheets, or about one third of assets.<sup>108</sup> The period of 1700-1720 was not an easy one for the bank despite the rapid growth of customer numbers, with about 100 added each year in the first decade alone. An attempt to set up a son (also Richard) led to bad debt of £36,822, which had to be written off against his future inheritance in 1712. During the second decade Hoare's did achieve a better business focus, as they removed small accounts that were unprofitable and began to focus on 'prominent, well-heeled clientele with large and regular borrowing requirements'. By 1719, most of the bank's lending was to a core twenty customers. However earnings for the partners remained limited throughout this period.<sup>109</sup>

The analysis of these firms' balance sheets and profit data has indicated that as a group they were not at all homogenous, although Child's and Hoare's did have some elements in common. Goslings is the most interesting of the banks discussed. It appears to have been very diversified and flexible in the way it used its resources. For most of the banks, it is also apparent that the third quarter of the century was a good time to be in banking, as asset size and profit levels appear to have increased. In general this ties in with the issues raised at the beginning of the chapter. It would be easy to caricature all West End banks as lenders to the aristocracy. This was clearly not the case. Equally while many of these banks display a sense of caution, they also demonstrated adaptability. While it may not have been the most dynamic part of the English banking system in terms of overall numbers, it was not static either. Most of the firms saw substantial growth, and by the end of the century were probably on average larger than City banks. Nor were West End banks completely separated from the economy. Indeed there were significant flows between West End bankers and the country that was undoubtedly useful in facilitating rural life.

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<sup>107</sup> Hutchings, *Messrs Hoare's Bankers*, pp. 17-20, 26-28.

<sup>108</sup> *Ibid.*, pp. 21-22, 30-1.

<sup>109</sup> *Ibid.*, pp. 24-5, 30-1. The author claims the partners would have made a better return investing their money in government securities.

## Chapter 7: The regional growth of provincial banking, 1700-1796<sup>1</sup>

Having discussed the significance of London to the development of provincial banking, it is necessary to consider provincial banking itself. Every discussion of country banking is influenced by Pressnell's work on the subject.<sup>2</sup> However there are still areas which can be further explored. This chapter provides a quantitative analysis of the growth in the number of banking firms during the eighteenth century. As well as highlighting the acknowledged importance of this period in the growth of country banking, it also seeks to examine the distribution of the banks across regions and counties. The latter is a topic that has been explored very little. As well as being of interest in its own right, in conjunction with other data sources it can be useful in helping to develop our understanding of why provincial banks emerged and understanding their role in the economy. For the regional analysis, the country is split into 9 regions. Finding historically meaningful regions for this period is not straightforward. Clive Lee's regional study, starting in 1841, used the regions as defined in 1974/5, which corresponded with the end period of his study. However for this study they did not seem relevant, particularly as it included regions like Humberside, which only emerged at a much later point.<sup>3</sup> The regions ultimately chosen are based on the Government Office regions established in 1994.<sup>4</sup> While clearly not perfect, they are sufficient for the key purpose of this analysis, which was to gain a broad-level overview of banks' distribution.

The data for this analysis is drawn from Dawes and Ward-Perkins' *Country Banks of England and Wales*.<sup>5</sup> Compiled in 2000, this thoroughly researched work is the most comprehensive guide to country banks available, although as its authors acknowledge, it is not problem free. Difficulties included instances where people are described as bankers whose business may have been more one of money-lending, or where the continuity of a bank between different partnerships was not completely clear.<sup>6</sup> This reflects the well documented problems of the loss of Country banks records.<sup>7</sup> Even for some relatively well known banks, the precise year of establishment can remain unclear even when information has survived. The Bewdley bank in Worcester, whose start date is usually given as 1782, has multiple partnerships with confusing terminology. One could also consider if the date when first deed of partnership was signed or when the bank first opened its doors is the true start date of the bank.<sup>8</sup>

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<sup>1</sup> All data for this chapter is based on an end date of 1796 unless otherwise stated.

<sup>2</sup> Pressnell, *Country Banking*, passim.

<sup>3</sup> Clive Lee, *British regional employment statistics 1841-1971* (Cambridge, 1979), p. 39-40.

<sup>4</sup> These correspond with NUTS 1 statistical regions of England.

<sup>5</sup> Margaret Dawes and C.N. Ward-Perkins, *Country Banks of England and Wales, Private and Provincial Banks and Bankers, 1688-1953*, vol. 1 and 2 (Suffolk, 2000).

<sup>6</sup> Dawes and Ward-Perkins, *Country Banks*, vol. 2, pp. ix-x.

<sup>7</sup> Pressnell, *Country Banking*, pp. 2-3.

<sup>8</sup> Edwin Green, 'Archives of the Founder: Examples from the HSBC group' in Kostas P. Kostis (ed.), *The Creators and the Creation of Banking Enterprises in Europe from the 18th to the 20th Century* (Athens, 2002) pp. 130-3.

Furthermore there are issues with other source materials underpinning the list of country bankers for this period. For the 1790s, the universal business directories represent a principal source and are essential for identifying some of the banks that had relatively short existences. However they do not allow the precise date of the formation of the bank to be established. Thus as the directories become more comprehensive, bank numbers might seem to increase, although in reality they are simply being better recorded. Thus a number of banks supposedly established around the early 1790s in particular may have been in existence before that point. Bankruptcy records can also shed some light on bankers, but if there are no other records of their business, this is of limited use. Nonetheless as Pressnell said of his own overview of the banking statistics, while the numbers might not be absolutely accurate, for the purpose of identifying major long-term trends they are adequate.<sup>9</sup>

One final caveat should be made before proceeding with this analysis. Although it is possible to track the changes in the number of firms, this obviously makes no allowance for the changes in their size. It is fairly clear that the leading firms were substantially larger by the end of the century than they had been at its beginning. Although the limit on the number of partners could to some extent act as a brake on the size of the firms, differences in size between firms remained substantial. Ideally one could wish for a dataset providing the total assets of each bank; however the loss of the underlying evidence prevents this. Given the impossibility of providing a statistical analysis of relative size, it becomes necessary to use a qualitative analysis of the surviving evidence to shed light on this point.

# I

The general trend for the emergence of provincial banks in England is well known. Burke famously asserted that before 1750 only about twelve banking shops existed outside of London, but by 1795 they were 'in almost every market town'.<sup>10</sup> Other contemporaries had a similar view. Sir Francis Baring claimed in 1797 that the 'establishment of Country Banks is of modern date and within my recollection', but that by 1793 they 'had been established in almost every town, and even in villages, throughout the country'.<sup>11</sup> Modern studies have reinforced this overall picture. Cameron's standard text on the period suggests that numbers rose from 12 in 1750 to 100 in 1775 and 370 in 1800.<sup>12</sup> Dawes and Ward-Perkins' limited analysis of their own research paints a similar picture. They suggest that prior to the 1720s, provincial bankers were so rare as to make an analysis of the topic practically impossible and even by 1750 there had been very little growth. It is only at the onset of the 1750s that the first significant acceleration of bank formations occurs. By 1800 they believe there was a total of 415.<sup>13</sup> The Suspension in 1797 is believed to have had a significant

<sup>9</sup> Pressnell, *Country Banking*, p. 10. See also the appendix for further comments on this point.

<sup>10</sup> E.J. Payne (ed.), *Letters on a Regicide Peace, Letter 1, On the Overtures of Peace*, 1st published 1795 (Indianapolis, 1990), pp. 59-60. This statement is cited for example in Pressnell, *Country Banking*, p. 4, and in Cameron, *Banking in the Early Stages of industrialization*, p. 23.

<sup>11</sup> Anderson and Cottrell, *Money and banking in England*, pp. 194-5. Baring lived from 1740 to 1810, meaning that the growth of country banking would coincide with Burke's estimate.

<sup>12</sup> Cameron, *Banking in the early stages of industrialization*, p. 24, 33. Cameron's work was heavily based on Pressnell's, who also stated 370 in 1800, see *Country Banking*, p. 11.

<sup>13</sup> Dawes and Ward-Perkins, *Country Banks*, vol. 1, pp. 6-7, 11-12.

impact in driving the growth in the number of banks thereafter. Ending this analysis in 1796 is therefore useful in gaining a more undisturbed picture: at that point 374 banks were in existence.

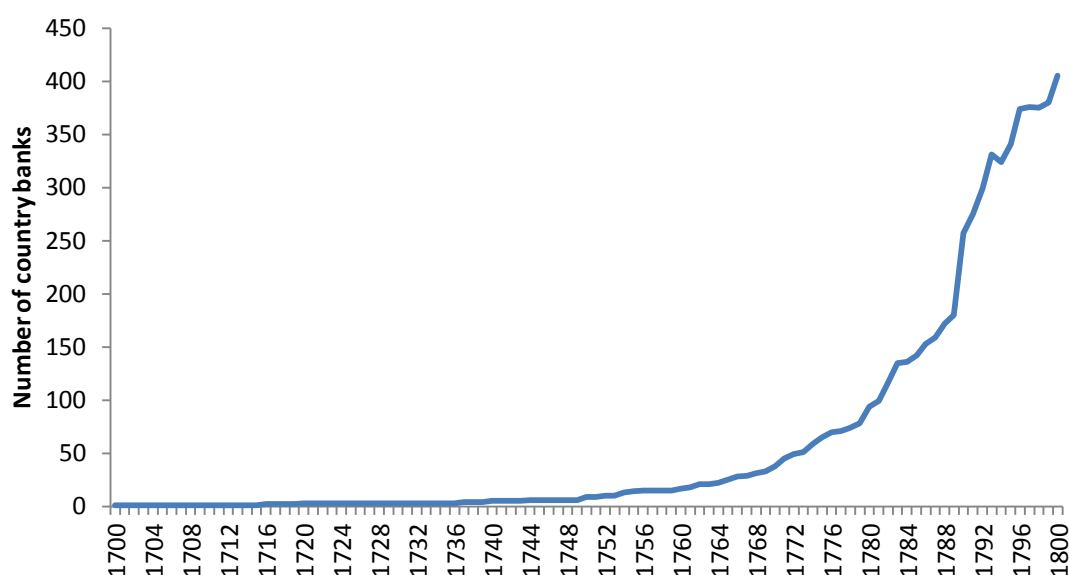


Figure 31: Growth of Country Banks in England and Wales, 1700-1800 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*)

Figure 31 shows the rise of country banks in England and Wales, incorporating banks from Dawes and Ward-Perkins' study when both an indicative start and end-date are known. There are a further 88 banks for which one of these dates is unknown (in 53 instances the end-date). This could obviously have a substantial impact on the overall totals if they came into existence at a similar sort of time. On the other hand, the fact that these banks generally left such little trace would tend to indicate that they were ephemeral actors in banking during this period and it is unlikely that many achieved scale. The growth in country banking was exponential in this period. As is well documented, country banking only really emerged after 1750. The initial growth rate was gradual, but thereafter accelerated at regular intervals, noticeably in the late 1760s, then again around 1780, with a final sharp pick-up in the growth rate in the late 1780s, which was barely interrupted by the French Revolutionary Wars.

Dissenting opinions on the overall size of country banking in 1800 are rare. One contemporary estimate did however suggest that the numbers were considerably lower: John Henry Tritton stated that there were only 230 in 1797.<sup>14</sup> This corresponds with the numbers provided to a Lords' Committee of Secrecy in 1797 by George Ellison, secretary to an association 'of great part of the Country Banks'. He argued that Country Bank numbers had peaked prior to March 1793, and by 1797 were only 230.<sup>15</sup> These estimates appear implausibly low compared to the total established in this analysis, and while bank numbers

<sup>14</sup> Cited in King, *The London Discount Market*, p. 8.

<sup>15</sup> BPP 1810 (17) *Report to the Lords' Committee of Secrecy. Order of council 26<sup>th</sup> February 1797 relating to the Bank*, pp. 51-2. This association apparently included about 90-100 banks at this point, and was designed to address forgeries and frauds.

may have fallen back slightly after 1793 they do appear to have recovered more strongly than suggested by Ellison. The figures also look low compared to other contemporary sources, as Pressnell has shown that the 1797 *Universal Business Directory* contained entries for 301 banks, while Thornton estimated 332 for that year.<sup>16</sup> In terms of the timing of that growth, Pressnell identified two stages, with rapid growth between 1750 and 1784, followed by a significant acceleration over the next ten years to 1793, trebling the number of banks over that time. The period 1793-7 was subdued, but the Suspension then led to another period of rapid expansion.<sup>17</sup> Dawes and Ward-Perkins' analysis suggests a significant growth spurt in the 1770s, meaning there were some 265 country banks in existence by 1788-90. The extraordinary conditions of the 1790s would witness a second spurt, leading to a doubling in the number of firms.<sup>18</sup> Other authors have placed the major growth spurt slightly earlier: Bisschop believed there were 150 banks in 1776 and 350 in 1790.<sup>19</sup> In general terms during the second half of the century, provincial bank numbers on average rose around 8% per annum as can be seen in Figure 32. Easier monetary conditions, prevalent in the early 1750s, 1765-6, 1770-1 and 1789-93 were generally regarded as favourable to bank growth, the last being particularly visible in the chart below.<sup>20</sup> While it is possible to highlight different periods, the unavoidable fact is that the period 1770-1790 as a whole was incredibly important in the formation of the provincial banking sector.

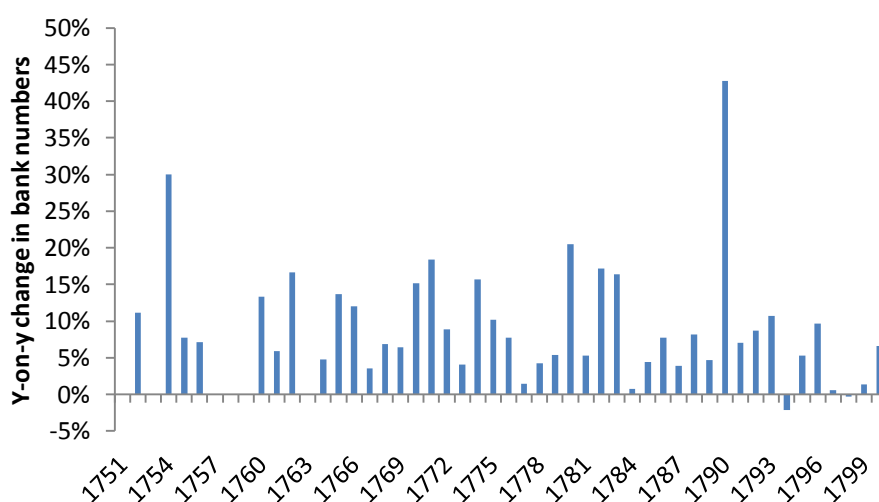


Figure 32: Percentage year-on-year change in country bank numbers, 1751-1800 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, passim)

Given the low base from which banking emerged, it is not really plausible to link the growth of banking and the growth of the overall population. The net result of the exceptional

<sup>16</sup> Pressnell, *Country Banking*, pp. 6-7, 11. Pressnell also cites Chalmers' estimate of 400 country banks in 1793, a number in line with the data presented here.

<sup>17</sup> Ibid, p. 7.

<sup>18</sup> Dawes and Ward-Perkins, *Country Banks*, vol. 1, pp. 6-7. In the text, they state 200 banks for 1788-90, but this is likely to be a mistake, and the figure given here for 1790 comes from the table on p. 11-12.

<sup>19</sup> Cited in King, *The London Discount Market*, p. 8.

<sup>20</sup> Pressnell, *Country Banking*, p. 8.

growth in country banking however was that on a per capita basis, England and Wales were becoming more densely banked, as can be seen in Figure 33.

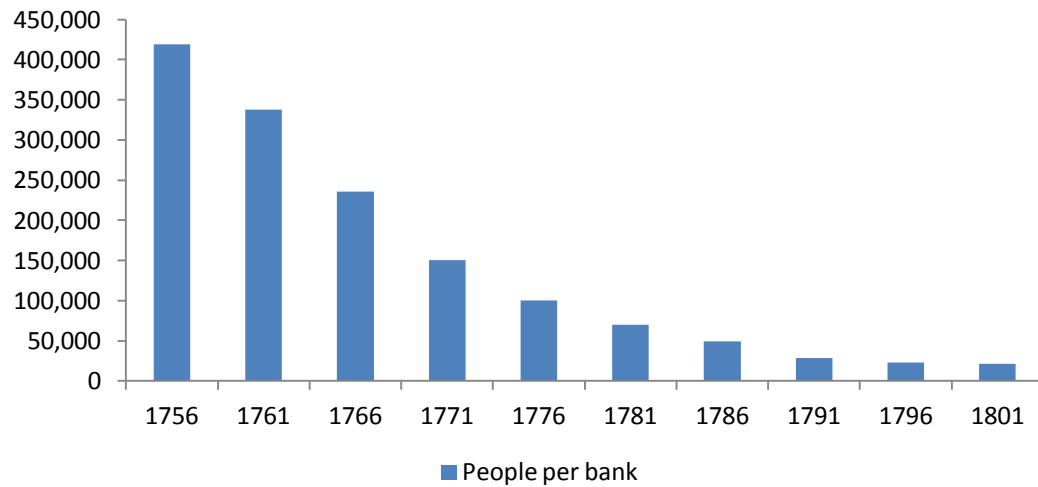


Figure 33: Banking density in England and Wales, 1756-1801 (Source: Wrigley, p. 64; Dawes and Ward-Perkins)

So far, only the net formation of banks has been discussed. Clearly over the course of the half century, there was a degree of turnover in the banking industry, some firms lasting but a handful of years. The comparison of bank formations and exits can be seen in Figure 34. The term exit is used deliberately for the numbers provided included firms that chose to end their business voluntarily, for example on the death of a partner, as well as the outright business failures. An idea of the difference between the two can be seen from Preston's study of banking in East Anglia, which identified 52 banks in total for this period. Of these, eleven are known to have left the industry by 1802, implying an exit rate of 21%. However of these exits, 4 were related to deaths or retirements. Thus the failure rate was actually around 13%.<sup>21</sup> For the country as a whole, from the 1780s there were constant entries, but also a smaller number of exits each year. Bank exits or failures have been of considerable historical interest.<sup>22</sup> However it is noticeable that of the banking crises identified by Clapham in 1753, 1763, 1772-3, 1783, 1793 and 1797, only really those of the 1790s are visible in bank exit statistics.<sup>23</sup> The major crisis of 1772/3 was of commercial origin and the first occasion on which the banking system was perceived to have developed to a point where crises could be transferred between regions, yet its impact barely registers in this data, in contrast to the experience of the London bankers.<sup>24</sup>

<sup>21</sup> Harold Preston, *Early East Anglian Banks and Bankers* (Thetford, 1994).

<sup>22</sup> Pressnell, chapter 8.

<sup>23</sup> Clapham, *Bank of England*, p. 224. See also Hoppit, 'Financial crises', p. 44.

<sup>24</sup> Hoppit, 'Financial crises', pp. 52-4.



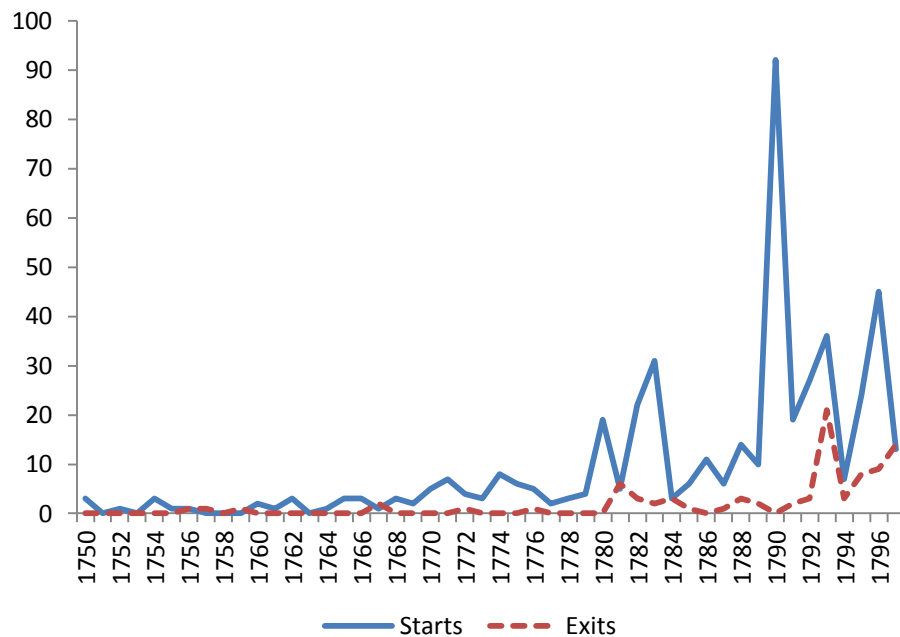


Figure 34: Country bank formations and exits, 1750-1797 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, passim)

Bank failures have contributed to the view that the English private banking system was volatile and vulnerable to shocks and as such has been a source of criticism. Clapham argues that within the eighteenth century economy, there was a 'tendency for confidence leading to over-confidence and then disappointment and perhaps disaster to recur at fairly regular intervals in commercial societies'.<sup>25</sup> It has been suggested that banks were often conduits for these broader problems when they occurred, rather than the root cause of the problems themselves.<sup>26</sup> Bank failures were however relatively visible, with notices surrounding bankruptcies for example common in publications such as the *Times* after 1785.<sup>27</sup> Contemporary opinion was not always supportive of the banks' performance, the *Times* of 1793 claimed that they should be 'purged'.<sup>28</sup> Some banks certainly left themselves more exposed than others. Sir Francis Baring was critical specifically of the banks of Newcastle for having initiated the crisis of 1793 by refusing payment, in contrast to those in Exeter where the partners in the banks continued to pay out. Newcastle banks differed from those in Exeter, where bank owners were less wealthy, did not invest so heavily in illiquid assets and could therefore continue making payments.<sup>29</sup> Baring had strong connections to the Exeter bankers, and was therefore well-informed as to their business practices. Ultimately this situation was to repeat itself again in 1797, when farmers at the farmers' market in Newcastle on Saturday 18 February panicked upon a rumour, sold their cattle in a crashing market, and went straight to banks to retrieve their gold. This led to the

<sup>25</sup> Clapham, *Bank of England*, pp. 225-6.

<sup>26</sup> Hoppit, 'Financial crises', pp. 54-7.

<sup>27</sup> The Times Digital Archive, 1785-2008. As an example, see John Tyson Reade, reported as bankrupt in Issue 271, 7 Nov 1785, or Thomas Garrard, issue 333, 18 Jun 1786.

<sup>28</sup> Cited in Banham, *Backhouses*, p. 6.

<sup>29</sup> Cited in Anderson and Cottrell, *Money and banking in England*, p. 196.

situation where on the Monday the bankers stopped payment.<sup>30</sup> In other words, these banks did not have adequate levels of liquid assets. There is likely to have been significant variation in local practices. Hartley claims that in Yorkshire, banks were by 1792 ‘sound concerns, some with fifteen to twenty years of service and experience behind them’, while newer enterprises supposedly had the backing of partners of significant wealth and position.<sup>31</sup>

A recent article by J.A. James has attempted to trace the likelihood of survival within the banking industry. To do this, he relied solely on banks from the North East as identified in Phillips’ work on that region, and he considered all banks, both private and joint-stock, through to 1894. He concluded from this research that banks founded prior to 1800 were the most robust.<sup>32</sup> Figure 35 shows the results of a similar exercise performed on country banks founded prior to 1800 for all of England. For the purpose of this analysis, only banks where both start date and end-date are known have been included.

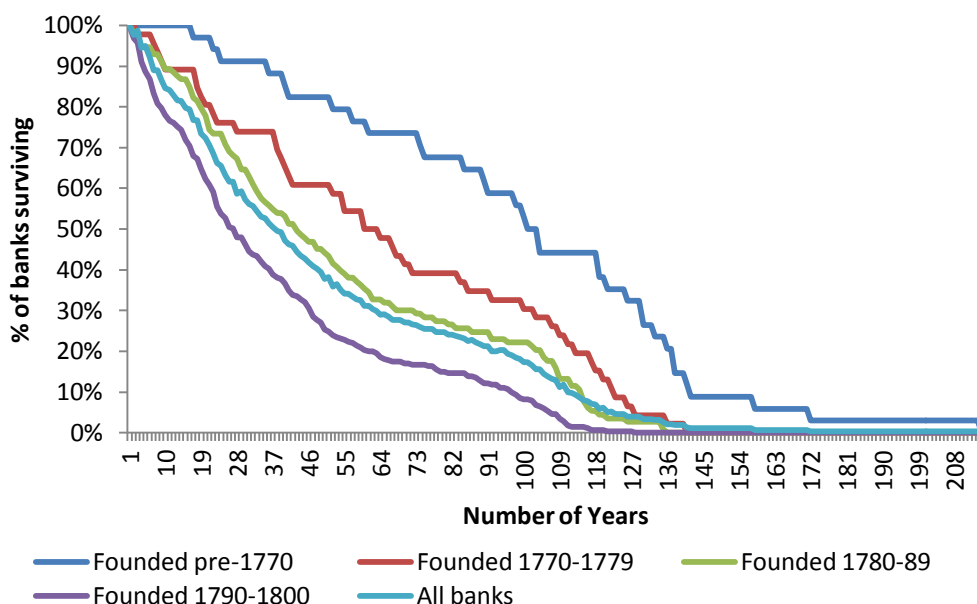


Figure 35: Bank survival rates, grouped by foundation period (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*)

In common with James’ data for the North East, the older banks have better survival rates than those that were established later in the century. That the banks established in the ‘frothier’ times of the late 1790s should have been slightly more prone to failure could perhaps have been anticipated. The significantly improved longevity of earliest established banks is more surprising. There is a possibility that the numbers are skewed by smaller, less successful establishments from earlier in the century having been completely lost from historical record. On the other hand, it might also be a reflection that earlier banks had a better reputation, had already accrued the best business in the locality, and were

<sup>30</sup> W.C.E. Hartley, *Banking in Yorkshire* (Clapham, North Yorkshire, 1975), pp. 15-6. The problems relate to France attempting to put its currency on a gold standard, which it was feared would drain gold out of Britain.

<sup>31</sup> *Ibid.*, p. 13.

<sup>32</sup> James, ‘English Banking and Payments before 1826’, pp. 120-4.

consequently by their nature more likely to survive than newer foundations that perhaps had greater speculative influences.

It is also possible to provide a comparison with contemporaneous developments in banking in Scotland (Figure 36). Although in institutional form the Scottish provincial banks were distinct from English country banks, the chart tends to show similar growth patterns in the number of banking firms in Scotland to that seen for the English Country banks. The key difference is that the development of banking in Scotland appears to have happened about ten to twenty years earlier than in England. England on the other hand was witnessing a much greater growth in numbers for the last fifteen years or so of the century. It is possible that early development in Scotland was a result of the greater competition between the Edinburgh banks, which drove them to seek to expand their influence into the provinces.

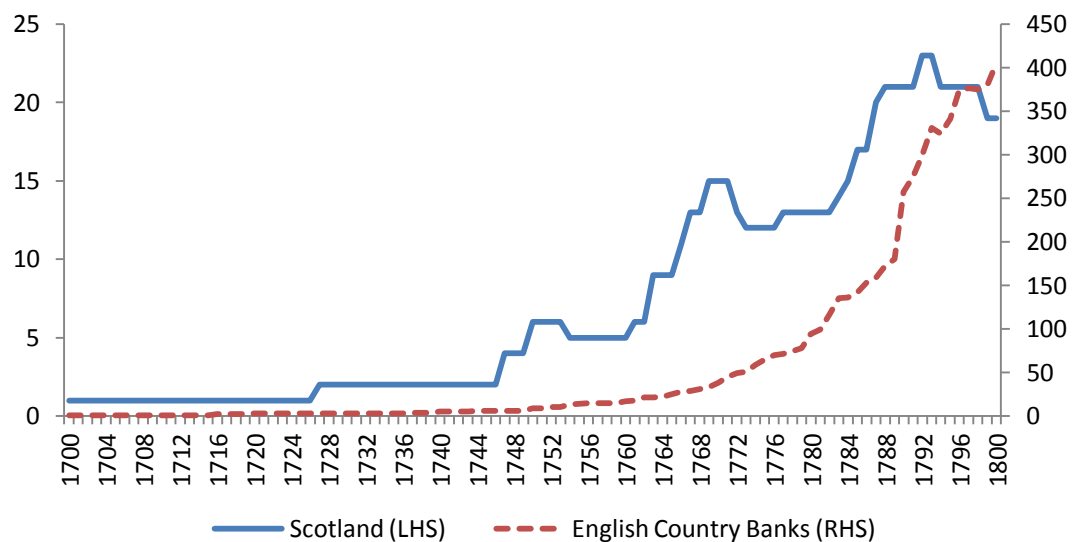


Figure 36: The growth of Scottish banking, 1700-1800 (Source C.W. Munn, *The Scottish Provincial Banking Companies*; English data from Dawes and Ward-Perkins, *Country Banks*, passim)

The data also suggests that it is extremely hard to argue that the English banking system of the eighteenth century was any weaker than the Scottish one. Although bank exits were lower in absolute numbers in Scotland, as a proportion of the firms in existence, there was no real difference between the two countries (Figure 37). Nor can it be suggested that the failures in Scotland were less severe on a qualitative basis, for the failure of the Ayr bank was potentially the worst bank failure of the century.<sup>33</sup> These points are very important. That English bank failures feature more prominently than Scottish ones on an absolute basis is not surprising, given that it had a larger number of banks in total. English banks do appear to have suffered more in the latter stages of the American War, however Scotland saw a problem in 1787 that was not witnessed in England. In the major crises it could be argued from this data that English banks were more robust than those of Scotland. In summary the growth and failure patterns for banking in Scotland and England appear to have actually

<sup>33</sup> Munn, *Scottish Provincial Banking*, pp. 29-33.

been quite similar, suggesting that the importance of the institutional forms they adopted is maybe overstated.

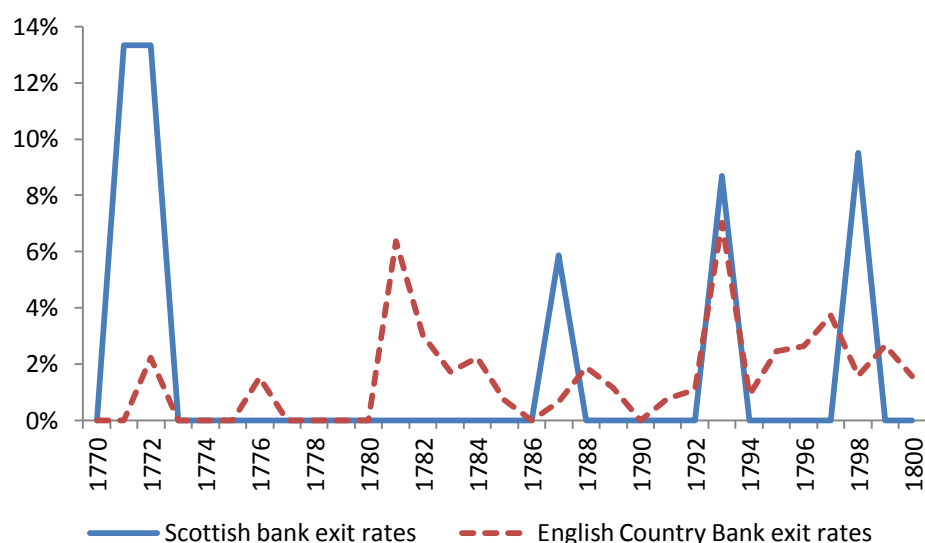


Figure 37: Comparison of English and Scottish bank exit rates, 1770-1800 (Source C.W. Munn, *The Scottish Provincial Banking Companies*; English data from Dawes and Ward-Perkins, *Country Banks*, passim)

## II

While trends at a national level are important, they are not by themselves sufficient to understand the growth of provincial banking. Analysing the distribution of the provincial banks throughout the country offers the opportunity to better comprehend the relationship between banking and other factors, including population size, wealth, and the nature of the local economy. It is an area on which remarkably little research has been carried out. Pressnell himself made no firm conclusion, while Dawes and Ward-Perkins' analysis of their own data was limited.<sup>34</sup> Table 10 and Figure 38 provide a breakdown of the number of banks by county, highlighting the exponential changes taking place in England over the last quarter of the eighteenth century. Some counties gained their first banking businesses, whilst others saw significant growth in banking coverage. The growth in places such as Kent, Gloucestershire and Shropshire is particularly noticeable, as they ended the century amongst the counties with the highest number of banks in the country, having had virtually no banking houses as late as 1780.

<sup>34</sup> Pressnell, *Country Banking*, pp. 4-11.

County	1780	1800	Variance
Yorkshire	13	44	+31
Somerset	13	32	+19
Kent	2	19	+17
Devon	3	18	+15
Gloucestershire	1	18	+17
Staffordshire	3	18	+15
Shropshire	1	17	+16
Warwickshire	4	17	+13
Lancashire	9	15	+6
Lincolnshire	2	14	+12
Hampshire	1	13	+12
Norfolk	4	12	+8
Wiltshire	2	12	+10
Wales	2	11	+9
Worcestershire	3	11	+8
Berkshire	1	10	+9
Oxfordshire	1	10	+9
Suffolk	3	10	+7
Cornwall	3	9	+6
Durham	6	9	+3
Sussex	0	9	+9
Derbyshire	7	8	+1
Dorset	0	8	+8
Leicestershire	2	7	+5
Cumberland	0	6	+6
Northamptonshire	0	6	+6
Essex	1	5	+4
Herefordshire	0	5	+5
Northumberland	3	5	+2
Buckinghamshire	0	4	+4
Cambridgeshire	2	4	+2
Isle of Wight	1	4	+3
Nottinghamshire	2	4	+2
Surrey	1	4	+3
Bedfordshire	0	2	+2
Cheshire	0	2	+2
Huntingdonshire	0	2	+2
Middlesex	0	2	+2
Westmorland	0	2	+2
Hertfordshire	0	1	+1
Rutland	0	1	+1
Total	96	410	+314

Table 10: Number of banks by county, 1780 and 1800 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 1 pp. 11-2)

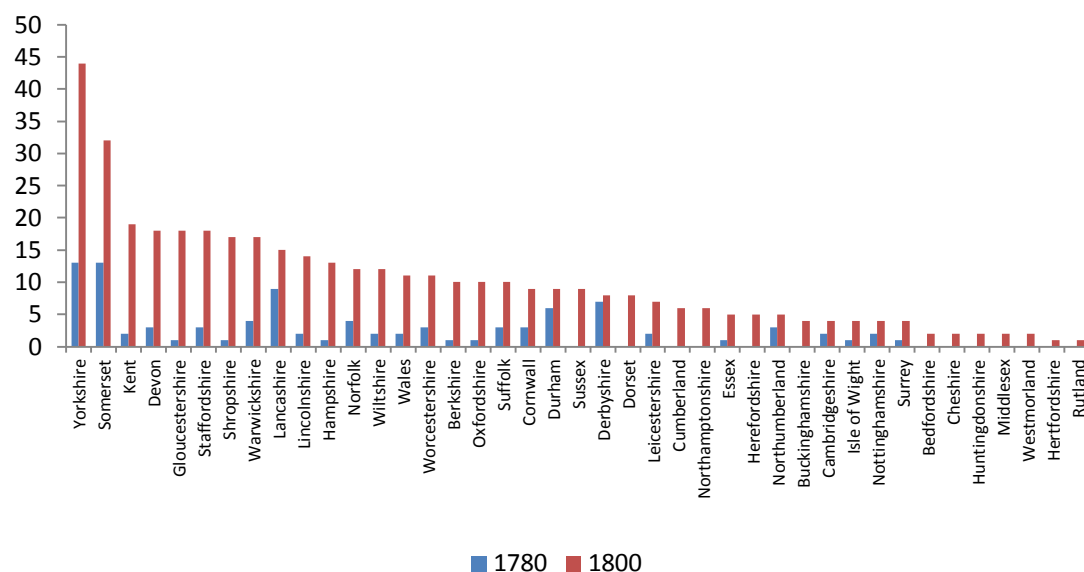


Figure 38: Change in bank numbers by county, 1780-1800 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 1, pp. 11-2)

In contrast, three counties stand out in the above analysis for the relatively conservative growth in the number of bankers: Derbyshire, Durham and Lancashire. Each county had by 1780 already seen a relatively substantial number of banks emerge and although they did add to these numbers over the course of next two decades, the increase is much less marked than in other counties. One explanation might be that the established incumbent banks could have reduced the incentive for new entrants to establish more speculative ventures in these regions.

Grouping the banks by regions makes it possible to highlight a number of key trends, although providing explanations in the regional variations is not always straightforward. In terms of the chronological changes, the most striking aspect of Figure 39 is that the South West of the country seems to have been very important in the overall growth of banking in England. Not only did this region provide the largest number of banks of any region in the country by 1800, but they also emerged earlier here compared with elsewhere in the country, driven by bank formations during the period from 1768 to 1788.

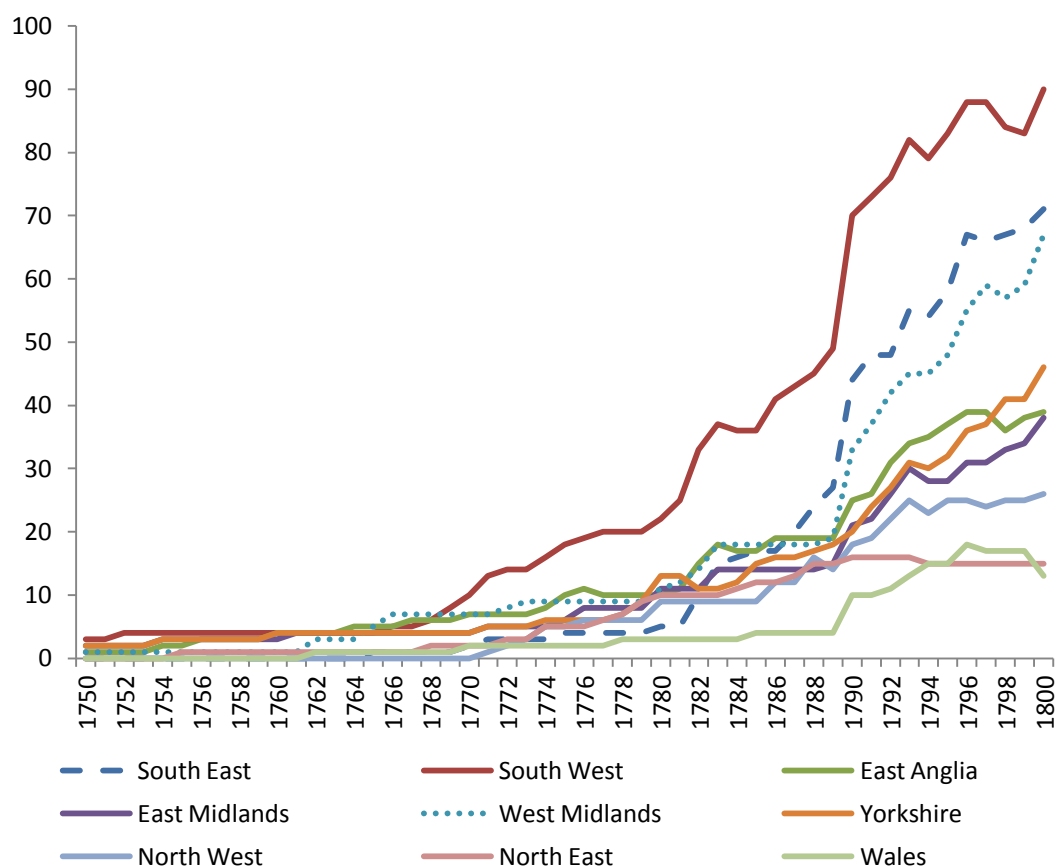


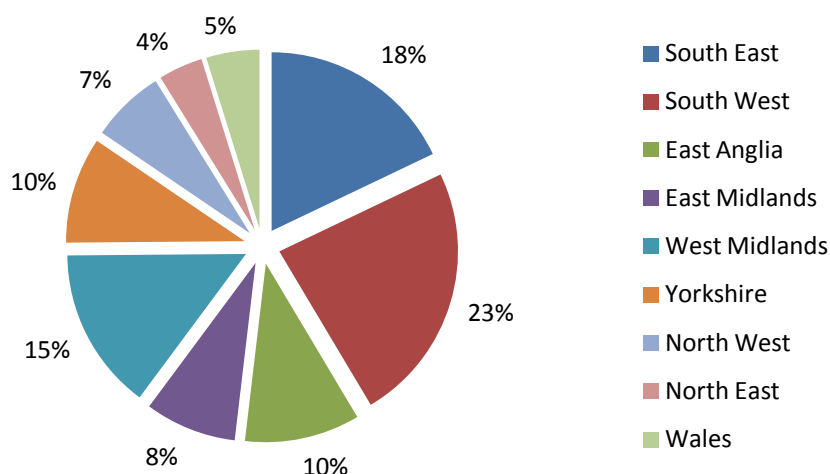
Figure 39: Country bank numbers by region, 1750-1800 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*)

By 1796, the South West region accounted for about a quarter of all banks in the country. The South East and West Midlands were the next most important regions, accounting for 18% and 15% of the total respectively. East Anglia and Yorkshire both provided another 10%. The relatively late emergence of banks in Wales was expected, as the existing literature tends to date the emergence of the early Welsh banking industry to the 1770s.<sup>35</sup> On the other hand it is possible to show that the Green's argument that West Wales possessed no genuine banking firms by the end of the century is incorrect.<sup>36</sup> The themes seen in Figure 39 are not fundamentally altered by analysing the location of banks where either start or end-date is unknown (which are not included in the chart). A quarter of these banks were located in the South West, while the proportion in the West Midlands is also similar to that from the analysis of banks where start and end-dates are known in 1796. However the East Midlands and North West appear overrepresented on this basis, being 10 and 7 percentage points above their expected level respectively.

<sup>35</sup> Roberts 'Banks and the economic Development of South Wales', p. 66.

<sup>36</sup> Green, 'Early Banks in West Wales', pp. 129-64.

**Percentage of total banks by region, 1796**



**Figure 40: Distribution of Country Banks by region in 1796 (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*)**

Some allowance needs to be made for the fact that these regions were not of uniform size or population. After excluding Middlesex from the population figures for the South East, to remove the population of London, the region of the South West was the largest throughout the century, although its share of the total population for England and Wales was shrinking. Importantly, its share of the country's banks was always well in excess of its share of the population (Figure 41). The East Midlands, West Midlands, Yorkshire and the North West were all of similar population size, with banks in the North West appearing to be consistently underrepresented. The North East and the South East are more interesting: in 1781, in the South East there were few banks relative to the overall population size, but this situation changed over the next fifteen years. The late emergence of banks here may be attributed to the impact of the proximity to London. In the North East, the situation was exactly reversed, as banking appears to have emerged early, but then its position normalised by the end of the century.



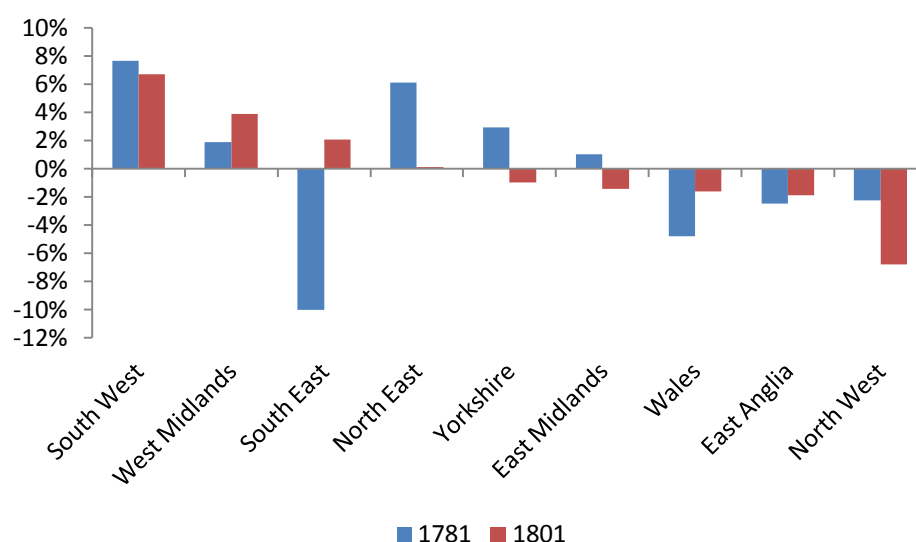


Figure 41: Regional share of provincial banks relative to regional share of total population (Source: population statistics from Deane & Cole; Dawes and Ward-Perkins, *Country Banks*, vol. 2, passim)

The variations between population size and bank provision is also apparent at county level (Table 11).<sup>37</sup> Relatively rural counties feature prominently at the top of this list, sorted by banking density in 1796. The figures for some of these counties are influenced by the impact of one relatively important, but not very populous town. For example Hull exerts a significant influence on the numbers for the East Riding, while Bristol has an equal impact on the position of Gloucestershire. This data also indicates how fast banking emerged in some counties, most notably Oxfordshire and Dorset, while industrial counties such as Staffordshire or the West Riding fall back quite far relative to other parts of the country.

<sup>37</sup> These are based upon Deane and Cole's population figures. Undertaking the same exercise using Mitchell's population figures for 1800 gives a similar outcome and.

	People per bank		Rank		
	1781	1796	1781	1796	Variation
Worcestershire	32486	10270	4	1	3
Gloucestershire	25812	10784	3	2	1
Oxfordshire	102144	11312	23	3	20
East Riding	21442	12701	2	4	-2
Dorset	102633	13222	24	5	19
Warwickshire	44425	14322	9	6	3
North Riding	52582	14843	14	7	7
Somerset	36119	14868	6	8	-2
Monmouthshire		15679		9	
Berkshire	108696	16100	25	10	15
Durham	20062	16548	1	11	-10
Suffolk	62994	16704	18	12	6
Shropshire		17299		13	
Wiltshire	92307	17365	21	14	7
Hampshire	174513	17436	27	15	12
Kent		17636		16	
Herefordshire		18408		17	
Cambridgeshire	40889	18440	8	18	-10
Leicestershire	36524	19176	7	19	-12
Huntingdonshire		19384		20	
Lincolnshire	97539	19565	22	21	1
Sussex		20550		22	
Devon	72990	20820	19	23	-4
Westmoreland		21473		24	
Norfolk	51216	21700	13	25	-12
Cornwall	78737	24285	20	26	
Yorkshire (whole)	54046	24620	16	27	-11
Staffordshire	47516	25239	11	28	-17
Northamptonshire		27192		29	-29
West Riding	57385	30701	17	30	-13
Wales	164414	31046	26	31	-5
Cumbria		32380		32	
Northumberland	49189	32423	12	33	-21
Derbyshire	33549	33257	5	34	-29
Buckinghamshire		36958		35	
Lancashire	46781	46280	10	36	-26
Essex	207739	46733	29	37	-8
Nottinghamshire	52824	48276	15	38	-23
Surrey	199062	69408	28	39	-11
Cheshire		98936		40	
Hertfordshire		100691		41	

Table 11: People per bank in 1781 and 1796 (Sources: Population data from Deane & Cole, *British Economic Growth*; bank numbers from Dawes and Ward-Perkins. Bedfordshire and Rutland had no banks in 1796 and are excluded)

While one would expect population size to have some bearing on the number of banks in a county, other factors might also be expected to be significant, such as wealth. The data shown in the following charts draws on Buckatzsch's work on the long-term trends of wealth in English counties.<sup>38</sup> This work is limited by the author's inability to find any usable data for the period between 1693 and 1803, when the wealth distribution within England possibly changed substantially. However a comparison of the 1803 wealth rankings with the banking numbers for 1800 is still possible (Figure 42).

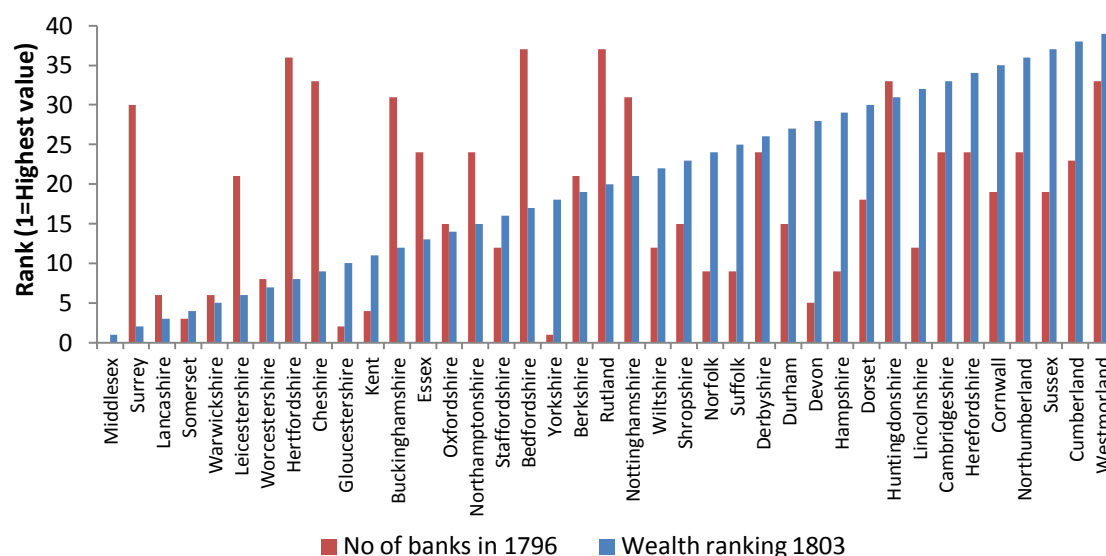


Figure 42: Wealth rankings versus number of banks per county rankings around 1800 (Sources: Buckatzsch, p. 187; Dawes and Ward-Perkins, *Country Banks*, vol. 2, passim)

The reasoning behind this analysis is that one could expect a richer county to contain more banks, for it is generally true that wealthier, more sophisticated economies would have more scope for specialisation and development in finance. However the picture from this initial data would suggest that this relationship did not hold in eighteenth century England, especially for the richer counties. The relationship is particularly poor for Leicestershire, Worcestershire, Hertfordshire and Cheshire. As one moves toward the less wealthy counties, the relationship does appear to improve, for example in Cambridgeshire and Westmoreland. The failure to find a relationship between wealth and banking could possibly be explained by an insufficient wealth differentiation between the counties, as it is based on a ranking system. Another potential issue with the analysis is that it does not take into account a county's geographical or population size. The effect can be seen in the case of Yorkshire, which scores well on number of banks by virtue of being the largest county, but is only average in terms of wealth.

<sup>38</sup> E. J. Buckatzsch, 'The Geographical Distribution of Wealth in England, 1086-1843: An Experimental Study of Certain Tax Assessments', *ECHR* 3:2 (1950), pp. 180-202.

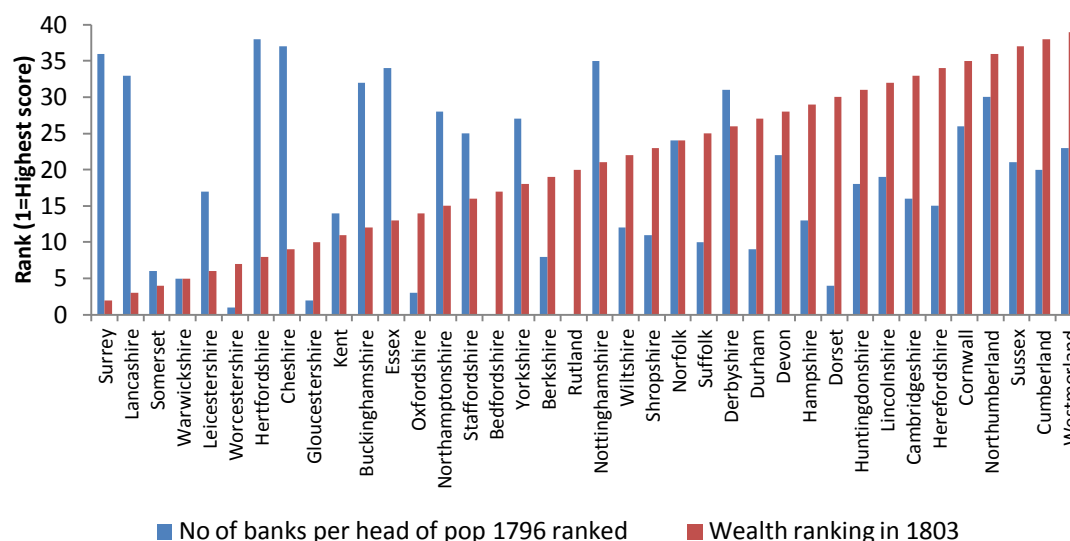


Figure 43: Ranking of number of banks per head versus wealth of county (Source: Buckatzsch, 'The Geographical Distribution of Wealth', p. 187; Dawes and Ward-Perkins, *Country Banks*, vol. 2, passim)

However Figure 43 shows that even if one adjusts the number of banks to account for the overall size of the population of a county, there is still no real correlation between the wealth of a county and bank provision within it. The discrepancy can be explained in certain instances: for example banking requirements for Surrey may have been covered from London. A similar argument could be made in relation to Essex and Buckinghamshire. Equally, Lancashire was notoriously underbanked, and this probably impacted upon Cheshire as well. However, even excluding these obvious discrepancies, the relationship between banking and wealth is inconclusive. Anecdotal evidence also suggests that a town's wealth was not a good indicator of the likelihood of a bank emerging there. Thus for example the first bank in Suffolk developed in Needham Market, which has been described as a poor town at the time the ironmonger and Quaker Samuel Alexander established the bank there. This bank then established a branch in Ipswich in the 1767, which became the head office of the bank around 1800. In contrast, the comparatively wealthy town of Halesworth developed two banks in the eighteenth century, but the first of these, Gurney & Turner, was only established in 1782. Equally the small, 'dirty' town of Clare had developed a bank by 1801, while the more substantial town of Lowestoft did not develop any banks until the 1820s.<sup>39</sup> Overall, the author of this article believes that banking in Suffolk developed better in the inland, agricultural towns than in those on the coast, although there is no evidence that this was true throughout the country as a whole

Another potential approach to understanding the distribution of banks is to analyse how bank numbers related to the underlying nature of the local economy. Table 12 shows the distribution of country banks in terms of the level of industrialisation of the county they were based in. To avoid subjectivity in the categorisation of counties, the number of steam engines found in a county in 1780 and 1800 was used as a proxy for its level of industrialisation. While obviously a crude method, it was felt that the use of steam engines in mining, textiles and metalworking, together with the presence of 300 engines (or 14% of

<sup>39</sup> A.G.E. Jones, 'Early Banking in Suffolk', *Notes and Queries* (1955), pp. 28, 170-172.

the total) in other areas of industry, meant that it could serve as a useful proxy.<sup>40</sup> It also had the merit that the relatively substantial costs of these machines implied a degree of capital expenditure for which a bank offering finance might have been of benefit.<sup>41</sup> For the purpose of this analysis, any county which was in the top quartile as determined by the number of steam engines located there has been categorised as 'industrial'. In 1800 this meant they had over 38 steam engines. Mixed counties were those having between 10 and 38 engines.<sup>42</sup> Once this analysis had been undertaken, the number of banks in each type of county in 1780 and 1796 was counted to give the final totals.

County Type	Banks in 1780	% of total	Banks in 1796	% of total	Population in 1801	People per bank (1796)
'Rural' Counties	33	35%	176	47%	3,638,000	20,670
'Mixed' Counties	8	9%	54	14%	823,000	15,241
'Industrial' Counties	53	56%	144	39%	4,366,000	30,319
Total	94		374		8,827,000	23,602

**Table 12: Distribution of banks by county economic characteristics I** (Sources: Dawes and Ward-Perkins, *Country Banks*, vol. 2, passim; population data from Mitchell, *Historical Statistics*; county types defined in text)

The results of this analysis are interesting. Firstly, it shows that in 1780, banks were predominantly located in industrial areas. It should perhaps be noted that at this point 25% of industrial banks were in Yorkshire, where only the West Riding was truly industrial, which might be distorting the overall data slightly. Over the next twenty years, there was a shift and by the turn of the eighteenth century, rural counties were better banked, certainly in terms of the number of banking houses. One can also tell that relative to their population size, banking density was greater in rural counties relative to their industrial counterparts in 1800. If one accepts that 'rural' areas were more likely to be deposit gathering areas, then this might tentatively suggest that bank formation was being driven by the need for a safe place for people's money, rather than being driven by a demand for finance. It would also tend to suggest that looking at the banking system predominantly in terms of industrial finance is not entirely appropriate. The other key point is that within the 'industrial' counties, many banks will have been financing commercial activity underpinning the local industry, rather than industry directly, as most banks were found in the commercial centres. Finally, although 'mixed' counties formed only a small proportion of all banks, it is noticeable that relative to their population size they were densely banked areas.

To provide a check on these results, it is possible to perform a similar analysis using Deane and Cole's definitions of rural, mixed and industrial counties. These were based on occupational splits given in the 1811 census, where rural counties were those where over

<sup>40</sup> Kanefsky and Robey, 'Steam Engines in 18th-Century Britain', p. 179-80.

<sup>41</sup> Cottrell, *Industrial Finance 1830-1914*, pp. 20-1, states that only largest firms could afford a Boulton and Watt engine. In 1797, a 16 horse power engine cost £1,000.

<sup>42</sup> Kanefsky and Robey, 'Steam Engines in 18th-Century Britain', pp. 175, 178, used 10 engines as their benchmark for 'industrial' in 1800, a total reached by less than half the counties. For my analysis of 1780, the top quartile, (industrial counties) implies the presence of 12 engines. Given the proximity to the level of 10 used for 'mixed' counties in 1800, the lower bound for 'mixed' counties in 1780 was reduced to 5.

50% drew their main income from agriculture, whilst mixed counties were those where this proportion was between 36% (the national average) and 50%.<sup>43</sup> The results are presented in Table 13.

County Type	1781			1796		
	Banks	% of total	People/Bank	Banks	% of total	People/Bank
<b>Agricultural</b>	20	20%	116635	109	29%	23899
<b>Mixed</b>	35	36%	68063	146	39%	19586
<b>Industrial/Commercial</b>	43	44%	50914	117	31%	25226
<b>Total</b>	98		70451	372		22624

Table 13: Distribution of banks by county economic characteristics II (Sources: Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*; for county types and population, see Deane & Cole, *British Economic Growth*, p. 108)

What is immediately apparent is that Deane and Cole's estimates significantly increases the number of banks in mixed counties. This is largely at the expense of the agricultural counties, although the industrial numbers also fall slightly. However it also confirms much of the previous results. It is clear that the mixed counties were the most densely banked (relative to their population size) at the end of the century. Equally in both cases, despite a large share of total provincial banks been concentrated in industrial counties (especially in 1780/1), relative to the population size of these counties they were the least well banked at the end of the century. One should also note that in Deane and Cole's analysis, a number of the counties that fall into the industrial category are not what one might normally define as industrial, including Gloucestershire, Kent and Surrey. As such, it is arguable that the analysis based on steam engines is more robust in identifying genuinely industrial counties.

So far, the impact of wealth, population size and industrialisation levels have been considered as potential drivers of banking provision within a county. One final approach can be to look at banking as a service industry that needs to be provided within an economy. If this is so, one can expect it to emerge in locations where other services are to be found. To measure this, one can compare the number of people per bank with the number of attorneys per person in each county. The comparison with attorneys has two advantages. Firstly it is a common profession, so they were spread throughout the country. Secondly, there is an established connection between attorneys and the provision of financial services in the eighteenth century economy, so one might expect to find both in the same place. Figure 44 shows the ranking by county of the number of people per attorney and per bank at the end of the century. The relationship is noticeably more significant than the relationship between banking and wealth and population size.

<sup>43</sup> Deane and Cole, *British Economic Growth*, p. 104.

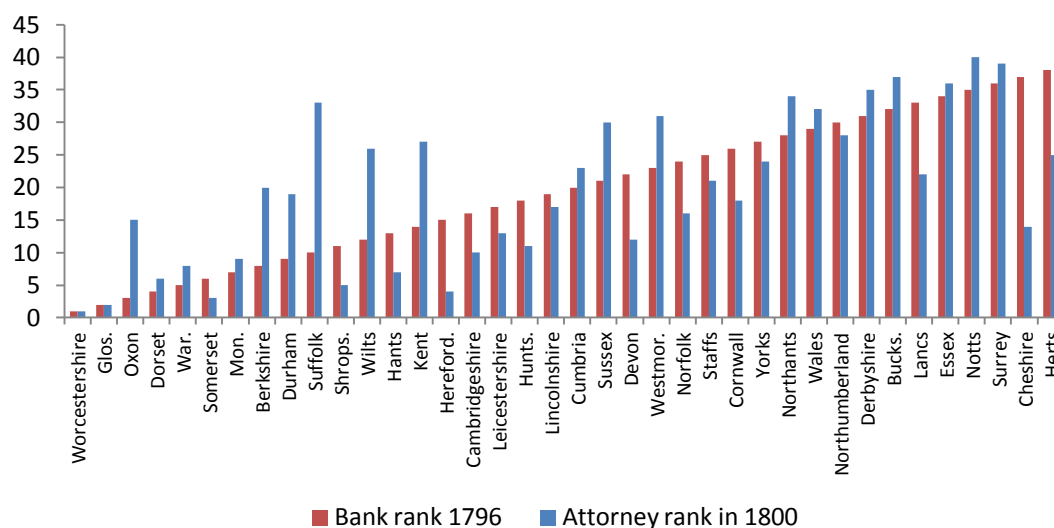


Figure 44: Bank and attorney provision by county; rank 1 equals fewest banks/attorneys per person (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2 passim; Phillip Aylett, 'A Profession in the Market Place: The Distribution of Attorneys in England and Wales 1730-1800', *Law and History Review*)

Counties with the highest number of attorneys, in relation to the size of the population, also tended to be those with the highest banking densities. The overall correlation between the two sets of data is relatively strong at 70%. There are very few counties where this relationship completely breaks down and where it does do so, it can be explained to some extent. Cheshire was a substantial legal centre, while it is known that the North-West was relatively poorly endowed with formal financial institutions, so that mismatch is not surprising. Another key feature of the distribution of attorneys was that changes were relatively limited over the period 1730-1800.<sup>44</sup> The analysis once again highlights the key importance of the South West as a banking sector for England and Wales, but also as a broader service centre. A key conclusion is that banking should be considered in the context of its function as a service industry and that it emerged in areas which were already well established as service centres. Wealth and population size in comparison were of lesser significance.

Aside from examining the formation of banks at a regional and county level, it is also possible to comment on how they were distributed across towns. By 1800, banks had been formed in 288 towns in England.<sup>45</sup> 150 towns, or 52% of the total, only had one bank. Another 26% of these towns saw the establishment of two banks; 3 banks were launched in 10%; and 4 banks in 5%. 5 or more banks opened in 6% of towns. Thus regional banking clusters were rare and it worth considering where they tended to emerge. Bristol was the largest banking centre outside of London, with 13 institutions created there. Norwich, another old commercial town, came second with 9. Other commercial ports also feature prominently: Liverpool and Exeter both numbered 8 banks; Hull, Newcastle and Whitby

<sup>44</sup> Phillip Aylett, 'A Profession in the Market Place: The Distribution of Attorneys in England and Wales 1730-1800', *Law and History Review* 5.1 (1987), pp. 13-17.

<sup>45</sup> Note that all figures in this paragraph include banks that had failed by 1800. In 1800 the number of towns with a bank was actually slightly less than 288.

each created 6. Industrial towns feature less prominently, but included Birmingham, Derby, Sheffield and Coventry.

The importance of commercial towns in driving bank formations is consistent at given points in time. In 1780, only eight towns had more than two banks: of these, half were clearly commercial (Bristol, Liverpool, Newcastle and Norwich). Bath stands alongside Bristol as the most important banking city, while Birmingham provides an industrial component.<sup>46</sup> A similar picture emerges at the end of the century in 1796 (Table 14). The 374 banks in existence in that year were spread across 231 towns. Of these 231 towns, the majority (62%) possessed only 1 bank. Equally commercial cities dominate the list of most heavily banked towns: Bristol and Norwich again head the list with 8 and 7 banks respectively. Exeter, Liverpool, Hull, Newcastle, Whitby and Boston all figure in the top 13 towns by number of banks, each with 4 or more banks. A number of the leading provincial banking centres feature in the list of the ten leading ports in 1788, as measured by tonnage owned.<sup>47</sup> Exeter was no longer a top 10 port in 1788, but had been in 1702. Boston is the exception in this list, in that it did not feature as a significant port in terms of volume of shipping. Leading ports that did not develop into banking centres at this point were Sunderland, Whitehaven, Scarborough and Yarmouth.<sup>48</sup>

Bristol	8
Norwich	7
Worcester	6
Birmingham	5
Exeter	5
Boston	4
Bury St Edmunds	4
Carlisle	4
Gloucester	4
Hull	4
Liverpool	4
Newcastle-on-Tyne	4
Whitby	4

Table 14: Leading provincial banking towns in 1796, with number of banks (Source: Dawes and Ward-Perkins, *Country Banks*, vol. 2, *passim*)

On the basis of the 1801 census data, Bristol had a bank for every 7,625 people. This was a much denser provision than in other cities: Manchester had only 3 banks for a population 75,000 (25,000 people per bank). Birmingham had 14,200 people per bank, Liverpool 20,500 per bank. The only other comparable figures are to be found in Cameron's work. These suggest that banking density in 1801 was highest in Birmingham, at one office per 12,000 inhabitants, compared to a national average of some 21,000 inhabitants per bank.

<sup>46</sup> The other two towns are Derby and Darlington.

<sup>47</sup> Ralph Davis, *The Rise of the English Shipping Industry in the Seventeenth and Eighteenth Century* (Newton Abbott, 1972), p. 35; Chapman, *Merchant Capitalism*, pp. 40-1. These are Bristol, Newcastle, Liverpool, Hull, Whitby.

<sup>48</sup> Sunderland had only 1 bank in 1796, the other three towns had 2 each. Both Sunderland and Yarmouth had additionally experienced one bank failure by this point.



Lancashire and Cheshire were at the opposite end of the spectrum, with 48,000 inhabitants per bank.<sup>49</sup> To explain this it is necessary to point to the strength and size of these banks, alongside the local aversion to note-issuing banks. In particular Lancashire is known to have operated slightly differently to other regions: banks there generally did not issue their own notes, but used Bank of England notes or bills of exchange. It should also be noted that the numbers are such that one extra bank materially changes the banking density, so that one would be reluctant to overemphasise this point.

What one can clearly identify from the above analysis is a strong link between commerce and banking in the provinces. This link between trade and banking can also be seen at a national level. Specifically one can compare the growth in the number of banks with the current value of English exports (Figure 45). The point remains suggestive, however the shape of the developments in both cases is remarkably similar, with the growth of banking slightly preceding the rapid growth in exports.

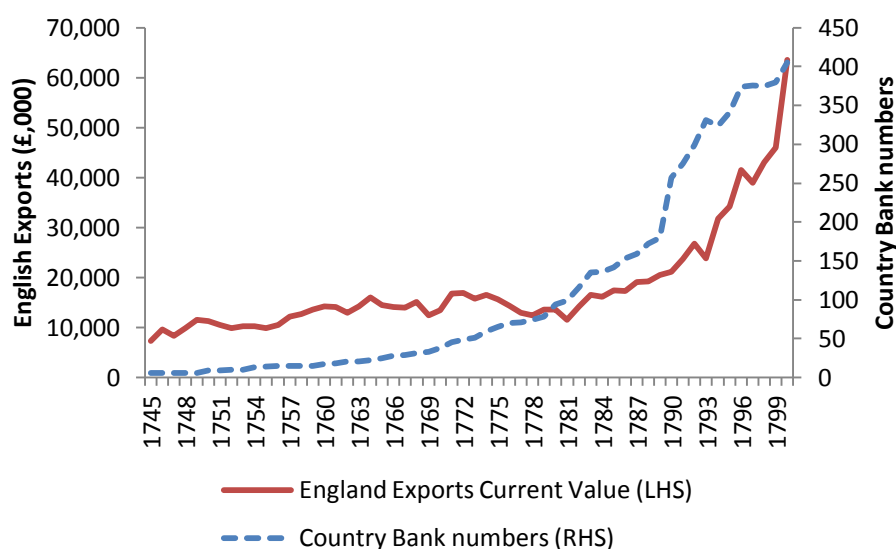


Figure 45: English Country Bank growth and English exports (Source: McCusker, 'The Current Value of English Exports, 1697 to 1800'; Country bank dataset)

Other evidence also points towards the important connection between trade and banking. It has already been shown that London's City banks were geared towards supporting the commercial activities of London. The Royal Bank of Scotland branch in Glasgow, which served a mercantile clientele, is thought to have become the busiest bank office outside of London.<sup>50</sup> Provincial banking studies have also highlighted commercial influence in these organisations. Banks in commercial towns featured strong merchant participation, but of course also had other representatives of other interests. These themes can be clearly illustrated in the case of bankers in the North East of England. Newcastle was one of the first major provincial towns where banking emerged as a standalone business.<sup>51</sup> All four

<sup>49</sup> Cameron, *Banking in the Early Stages of Industrialisation*, pp. 26-7.

<sup>50</sup> Munn, *Scottish Provincial Banking Companies*, pp. 48-9.

<sup>51</sup> Phillips, *History of Banks, Bankers and Banking*, p. 174-5.

partners of the Newcastle 'Old Bank' are described as merchants.<sup>52</sup> Banham has estimated that of 28 known bank partners in Newcastle, 13 were merchants, 7 manufacturers, three lawyers and five landed gentry.<sup>53</sup> In Sunderland, there was a strong link between the banking industry and shipping, with one banking partner being a local coal and ship owner, and another a London trader with that port.<sup>54</sup> Obviously some prominent bankers did emerge from manufacturing backgrounds: the Backhouses for example were linen and flax manufacturers and dealers in yarn, as well as becoming the agents of the Royal Exchange Assurance in Darlington in 1759.<sup>55</sup> Equally, while commercial towns were important in bank formations, the experience of bank development in these towns was not uniform. Newcastle, with five banks by 1793, fits the idea of a commercial town with a longstanding banking heritage. Liverpool also developed a sizeable business in banking by the end of eighteenth century, however the trajectory reflects the later emergence of this city compared to some of the more established commercial ports, such as Bristol or Newcastle. The first directory of Liverpool in 1766 does not list any bankers and that of 1774 only one (Caldwell & Co).<sup>56</sup>

### III

Three distinct points emerge from this chapter. Firstly England as a whole, and most regions within the county, followed a similar standardised pattern of exponential growth in bank numbers across the course of the century. This pattern corresponds roughly to the 'typical' expectations of the growth of a banking system that has been highlighted by Grossman.<sup>57</sup> The precise shape of the curve is said to depend on the demand for banking services from the economy and the regulation of the banking industry. Notably the analysis presented here suggests that the shape of this curve does not depend on the ownership structure within the banking industry; it is the same as one would expect with commercial joint-stock banks. This point is confirmed through the comparison to the Scottish banking system that has been made, but also in comparison to other countries, such as the USA, Denmark or Norway.<sup>58</sup> Within England, the region of the South West stands out for having been ahead of other provincial regions in developing a banking industry. This could reflect the combined impact of the legacy of Bristol's importance as a commercial centre and a generally wealthy hinterland with important towns.

Secondly, the analysis of the provincial bank failures should make one hesitant to argue that provincial banks were structurally less sound than other ownership structures, such as contemporary joint-stock banks in Scotland. Indeed, if anything, the oldest provincial private banks demonstrated exceptional longevity. When failures arose, they were more

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<sup>52</sup> J. Banham, *Backhouses' Bank of Darlington 1774-1836* (NEEH Papers in North-Eastern History 9, 1999), p. 6.

<sup>53</sup> John Banham, 'A very great public conveniency: The origins of banking in County Durham', *Durham County Local History Society Bulletin* 52 (1994), p. 22.

<sup>54</sup> *Ibid.*, pp. 30-1.

<sup>55</sup> Banham, *Backhouses' Bank of Darlington*, p. 9.

<sup>56</sup> J. Hughes, *Liverpool Banks and Bankers 1760-1837* (London, 1906), p. 2.

<sup>57</sup> Grossman, *Unsettled Account*, pp. 16-18.

<sup>58</sup> *Ibid.*, pp. 19-25.

likely to occur amongst companies established, perhaps more speculatively, during frothier economic periods (especially the 1790s).

Finally, it has been argued that the distribution of banks by county can help us understand the banking industry that was emerging in the provinces. While growth was ubiquitous, patterns of development were not uniform, and it is possible to some degree to account for these variations. There is no obvious relationship between bank development and a county's wealth or population size at the time. In terms of the nature of the underlying economy, at a county level it can be tentatively suggested that banks were more likely to emerge in agricultural areas, while mixed economies were best served by banks relative to their population size. It also appears that banks emerged in greatest numbers in areas that already had significant service economy, as measured in this instance by the number of attorneys located there. When looking at the distribution of banks across towns, it appears that commercial cities were the most important banking centres in the country, in terms of the number of banks located there. These two points are not mutually exclusive, for it can be argued that commercial towns were also often important service centres. These conclusions have important potential implications in terms of the role of banks within the economy, suggesting that banks should be studied more in the context of commerce and the service economy than they have been in the past, a point that will be explored further in the following chapter.

## Chapter 8: Provincial banking, industrial finance and economic growth: an historical argument reconsidered

In the introduction to this work, it was argued that the historiography of early English banking as it stands has been driven by an interest in the links between economic, especially industrial, growth and the emergence of a banking system. The shape of this argument was formed from an overwhelming interest in industry in the provinces from 1780 to 1830, and a contemporaneous explosion in country bank numbers. Remarkably despite the tendency since the 1980s to de-emphasise certain aspects of the traditional interpretation of the English Industrial Revolution, the narrative with regards to English banking has remained essentially static, or alternatively banking is simply ignored. It is consequently appropriate to give some consideration to both this broad historical argument and the more detailed work on the actual links between banking and industry. It will be possible to underline the key problems with this approach, partly by elaborating on some of the issues that were touched upon in Chapter 7. Thus while that chapter set the growth of provincial banking in the eighteenth century within the context of population, income levels and geographical distribution of economic activity, this chapter will seek to further explore some of the points raised from the latter point in particular. As with any discussion of country banking, this analysis relies to a degree on Pressnell's pioneering *Country Banking in the Industrial Revolution*.

### I

The value of early English banking to the English economy has generally been measured against its ability to provide finance for the new industries of the industrial revolution. This is not to claim that banking could not serve other purposes, but ultimately its relevance and success has been measured on an industrial yardstick. This can be seen in the work of L.S. Pressnell for example. When examining the impact of country bankers, he devoted 22 pages to the finance of industry and 35 pages on the finance of the related spheres of local authorities and utilities. In contrast there are 12 pages on the finance of agriculture and the finance of trade received but 10 pages.<sup>1</sup> This balance of interest was understandable in an era where the staple industries and transport were believed to be driving truly exceptional English economic growth. It is also not surprising in this light that it was the banks in the industrial regions that were accorded the greatest significance.

On the point of bank numbers and bank capital, the circumstantial evidence was equally encouraging. The emergence of large numbers of country banks coinciding with the period of industrialisation from 1780 onwards was seen as a potential link between the two. Fixed capital formation was central to many early arguments about Britain's growth. Feinstein's work on the 1790s suggested that 14% of all national income was devoted to fixed capital formation: industrial and commercial fixed asset formation rose from £0.77 million p.a. in

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<sup>1</sup> Pressnell, *Country Banking*, pp. 322-400. From this it can be seen that although industry was a core part of Pressnell's interest, he clearly had a broader view of the scope of bank activities, but this has been lost in some of the later literature that has built upon his work.

the 1760s to £5 million p.a. in the 1810s.<sup>2</sup> Measures of bank capital provided a similarly promising link as a source for this extra capital, as capital devoted to banking increased rapidly, from £1,000,000 in 1775 to £3,700,000 in 1800.<sup>3</sup>

The analysis undertaken suggested that the link was far from conclusive. This is partly a reflection of the paucity of the surviving records of the 'industrial' banks themselves, which led Pressnell to declare his conclusions to be 'impressionistic'.<sup>4</sup> Another limitation derived from the fact that his evidence for industrial finance was based largely on banks located in industrial regions. The few uncovered instances of direct lending to industry by other banks were based on familial links between a bank and an industrial customer.<sup>5</sup> Equally most of the examples provided fall within the period 1800-1820, rather than for the eighteenth century itself. Within these limitations, the strongest links with industry were found between banks and the metal trades, particularly extractive industries. Five Cornish banks were clearly involved in the finance of the local copper industry, including most notably Preads Bank. The Bristol Copper Company received about one third of its borrowings of £70,000 from five Bristol banks in the 1760s. In December 1782, Pread's called in loans for almost £30,000, split amongst 24 customers, most of who were in the copper industry. Other instances of overdrafts for the copper industry can be found for the 1780s and 1790s.<sup>6</sup> In the North East of England, there is evidence that the younger banks (Davison-Bland & Co. and Surtees, Burdon & Co.) helped to finance some of the minor extractive industries of the region, such as lead and alum.<sup>7</sup> The absence of finance for the coal industry is noteworthy. Other aspects of the metal industry, especially processing, was financed by more short-term lending on discount or by overdraft, as seen by banks in Manchester, Birmingham and Staffordshire.<sup>8</sup>

In textiles the picture is if anything even less clear. In the older textile regions, banks emerged that appear to have moved away from their industrial heritage and financed merchanting ventures, including the Gurneys and Barings. Ultimately some of this capital could find its way back into textile businesses in other regions, but this was not a given, and ultimately risky, as the fate of the Bath bank of Cross & Co demonstrates. Indeed the chief impression from this section is that the majority of banks with strong textile links were often incredibly unstable.<sup>9</sup> For other industries a verdict on the role of banks remains elusive due to a lack of evidence, although the building industry appears to be one instance where banks wisely stayed clear.<sup>10</sup> Finally one can note that the evidence from Leyland, Bullins & Co. suggests the possibilities available for industrial finance to a large bank in an

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<sup>2</sup> Both figures cited in Cottrell, *Industrial Finance 1830-1914*, pp. 1-5.

<sup>3</sup> Cameron, *Banking in the Early Stages of Industrialisation*, p. 33. These figures are very rough estimates based on the supposed average capital of country banks at this point and should be treated with some caution.

<sup>4</sup> Pressnell, *Country Banking*, p. 322.

<sup>5</sup> *Ibid.*, pp. 342-3.

<sup>6</sup> *Ibid.*, pp. 323-4, 328-331.

<sup>7</sup> *Ibid.*, pp. 324-6.

<sup>8</sup> *Ibid.*, pp. 326-30.

<sup>9</sup> *Ibid.*, pp. 333-7. Cross & Co had been financing cotton for Liverpool for £30,000, a liability which caused the bank to collapse in March 1793.

<sup>10</sup> Pressnell, *Country Banking*, pp. 338-40.

important industrial centre. However much of the evidence is derived from ledgers in the 1810s.<sup>11</sup> Perhaps the most striking point therefore of Pressnell's analysis is that the evidence is against banks providing finance to new firms other than their own.<sup>12</sup> Banks could be important sources of working capital through short-term advances during difficult economic times, but were unlikely to finance new industrial ventures.

Cottrell's work drew similar conclusions on the links between industry and banking. His early work has pointed to some of the difficulties in establishing the link between banking and industrial growth. Cottrell noted that the industrialists and attorneys were important in the formation of country banks, but that 'industrial bankers' often failed through over-lending to support their industrial businesses.<sup>13</sup> On an industry specific basis, the links between banks were varied. The Midlands cotton industry had substantial access to bank funding, with 30% of all Smiths of Nottingham's advances being made to fifteen spinning firms in 1792.<sup>14</sup> For the cotton industry as a whole, 'bank finance, in the form of either a discount account or an overdraft, became increasingly important during the 1790s'.<sup>15</sup> However in other industries, including coal, woollens and iron, bank activity was much more limited according to this account. In coal, the chief bank involvement was in the relatively less important fields of Barnsley. In iron the chief source of finance was merchant capital from Bristol and London, although over time 'banks became increasingly important sources of loan capital and as in cotton, ironmasters frequently became bankers'.<sup>16</sup> Although banks were then clearly linked to some parts of the industrial economy, this was highly localised and industry specific. The main impression one gets from this work is the difficulty of making any generalisations on links between bank finance and industrial growth in this period.

The 'traditional' interpretation of the Industrial Revolution has of course been revised since the work of Cameron and Pressnell in particular has been published. Two key points are relevant to this analysis. Firstly, the revision of the growth rates achieved by the English economy has meant that the period from 1780 to 1830 is now viewed as being less significant. Secondly, more detailed analysis of capital formation shows that the capital requirements of the new industries were limited and could be met from more traditional sources, especially families. The exact amount of fixed capital formation in the English economy became subject to debate. Deane & Cole suggested that by the 1780s, only 5% of national income went to this source, rather than the 14% suggested by Feinstein.<sup>17</sup> Thus the capital requirements of the economy, while not necessarily enormous, were undoubtedly increasing.

However although this view has become popular, more recent historians have again started to question some of the elements of this approach, especially with regards to the

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<sup>11</sup> Ibid., pp. 340-42.

<sup>12</sup> Ibid., p. 337.

<sup>13</sup> Cottrell, *Industrial Finance 1830-1914*, p. 14.

<sup>14</sup> Ibid., pp. 19-20, this totalled just under £30,000.

<sup>15</sup> Ibid., p. 22.

<sup>16</sup> Ibid., pp. 26-35.

<sup>17</sup> Cited in Cottrell, *Industrial Finance 1830-1914*, pp. 1-5.

capital and credit requirements of business. From an industrial perspective, such criticism can be seen in the work of Pat Hudson. She bemoans the decline in emphasis on the study of the finance of the firms, believing that 'the fragmented nature of the capital market, different capital requirements of major sectors, different trade and credit arrangements, and regional variations in capital availability' caused difficulties that caused many individual firms to fail through lack of capital and credit.<sup>18</sup> Although other sources of capital and credit were important, banks were by the later eighteenth century significant in the provision both of short-term credit and longer-term capital, even if the latter was a 'rather unwilling' role.<sup>19</sup> From a financial history perspective, Larry Neal has also been critical of what he described as the 'Postan-Pollard-Pressnell' story of the finance of business, where the financial and industrial revolutions had nothing to do with one another.<sup>20</sup>

The British Industrial Revolution has been described as the 'Holy Grail of economic history' and new interpretations provide a continuous flow of new works.<sup>21</sup> Remarkably all the revisions to the historical interpretations of the Industrial Revolution and industrial organisation appear to have had limited impact on the approach to integrating finance into the analysis. Thus the role of early English banking is still addressed in a similar manner as it was in the 1960s. The most recent publications on the English economy have tended to emphasise the role of technological changes in the British economy in textiles, iron and coal mining and highlighted both the cost structure and institutional/cultural framework within Britain that facilitated their adoption: 'the profitability of innovative effort in the eighteenth century'.<sup>22</sup> Their treatment of the banking industry is revealing. Allen barely mentions the topic at all. Indeed his focus on the invention process as the key to understanding the Industrial Revolution meant that his main interest in finance was in the modern concept of venture capital, where he highlights banks supporting the rise of Boulton-Watt engines.<sup>23</sup> In other instances banks were unhelpful, Arkwright for example being unable to gain finance from two Nottingham banks in 1769, as they doubted the invention's viability. Instead he received loans from relatives (a pub landlord and a merchant), Samuel Need, a wealthy hosier, and Jedediah Strutt, a projector who had financed improvements to the knitting frame.<sup>24</sup> This gives the impression that banking was of limited importance to the Revolution, although the incomplete discussion of the finance of invention prevents a firm conclusion on this point. Similarly the recent overview of the British Industrial Revolution by Emma Griffin barely mentions the role of finance (or credit) as an explanatory factor. Banks are only really referenced in relation to their necessity in

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<sup>18</sup> Pat Hudson, 'Financing Firms, 1700-1850' in Maurice Kirby and Mary B. Rose, *Business Enterprise in Modern Britain, from the eighteenth to the twentieth century* (London, 1994), pp. 88-9.

<sup>19</sup> *Ibid.*, pp. 101-3.

<sup>20</sup> Larry Neal, 'The finance of business during the industrial revolution' in Roderick Floud and D.N. McCloskey (eds.), *The Economic History of Britain since 1700, volume 1: 1700-1860* (Cambridge, 1994), pp. 151-3.

<sup>21</sup> Nicholas Crafts, 'Explaining the first Industrial Revolution: two views' *European Review of Economic History* 15.1 (2011), p. 153.

<sup>22</sup> *Ibid.*, see especially p. 166. He is commenting specifically on Robert C. Allen, *The British Industrial Revolution in Global Perspective* (Cambridge, 2009) and J. Mokyr, *The Enlightened Economy: An Economic History of Britain 1700-1850* (New Haven, 2009).

<sup>23</sup> Allen, *The British Industrial Revolution*, p. 167.

<sup>24</sup> *Ibid.*, p. 202.

encouraging industrialisation in other European countries, which serves only to highlight their low-key contribution in England.<sup>25</sup>

Mokyr's work is more comprehensive than Allen's, his approach allowing non-industrial sectors of the economy to be discussed more fully. Two chapters are dedicated to the service sector, of which roughly a quarter is allocated to the discussion of finance. The thoughts on London's bankers, which are covered in one paragraph, are at best confused, at worst incorrect.<sup>26</sup> It is once again the provincial bankers that are considered of greatest importance and to which the bulk of the analysis is devoted. Mokyr believes that finance in this period has been underrated, both as 'a manifestation of the belief in progress' and because its role as a lubricant means that GNP figures do not capture the sector's real impact.<sup>27</sup> Having said this, he identifies the key strength of the system as providing a circulating medium and working capital, and of facilitating transactions between local manufacturers and merchants. Bankers' role in 'facilitating the transition to industrial capitalism is more problematic', although he cautiously suggests that they were less risk averse than in later periods and were willing to act as venture capitalists to a limited degree.<sup>28</sup>

In summary, it can be argued that despite a significant debate on the links between provincial banking and industry, our understanding of the significance of banking to the industrial revolution, or indeed economic growth more generally, has not progressed since the 1960s. This is partly because the evidence that was used in these discussions was itself ambiguous or inconclusive. Yet it is also the result of a sterile approach to incorporating banking into the debate on the overall industrial revolution, which is arguably too narrowly focused on industry, particularly as the significance of the industrial complex has been diminished in the historical literature. The following sections seek to revisit the question of the links between provincial banking and industry, to see if more recent research on banking studies has changed the overall verdicts on this link. It will then proceed to the question of the most appropriate way of linking the development of provincial banking and broader economic change, suggesting a number of more fruitful ways in which this could perhaps be pursued.

## II

While top-down analyses of banks' impact on the overall economy have delivered mixed verdicts, the results of studies focused more narrowly on banks have tended to suggest a stronger link between industry and banking. In South Wales direct lending to business was supposed to be more common than was normal at the time. However the evidence then provided shows only three known examples for the 1790s, one to a forge, one to a colliery and one to a canal.<sup>29</sup> The Brecon Old Bank had a relationship with some industrialists in the

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<sup>25</sup> Griffin, *Short History of the British Industrial Revolution*, pp. 126-8.

<sup>26</sup> Mokyr, *Enlightened Economy*. Finance is covered in the first half of chapter 11. For banking in London see p. 221.

<sup>27</sup> *Ibid.*, p. 220.

<sup>28</sup> *Ibid.*, pp. 221-4. On venture capitalism, he notes that provincial banks operated with less loss-tolerance than a modern venture capital firm.

<sup>29</sup> Roberts, 'Banks and the economic Development of South Wales', pp. 69-70.



eighteenth century, acting in particular for the Dowlais Iron Company, by discounting its notes. It had an obscure relationship with the Hirwaun Furnace, to which it may have lent money, and it did lend money to transport companies, including the Glamorganshire Canal in the 1790s.<sup>30</sup> However the majority of its business at this time was agricultural, consisting of making advances on the promissory notes of drovers for two to three months.<sup>31</sup>

Some banks made substantial investment in industrial enterprises, to such an extent that it has been argued that they in many ways came to perform a task more akin to modern venture capitalist firms. In particular Brunt highlights the activity of Praed & Co in Cornwall in lending to the local copper industry.<sup>32</sup> Pat Hudson's study of the links between banks and industry in the West Riding textile trades indicate a close connection between the two. Of 64 bank partners in the West Riding of Yorkshire between 1758 and 1820, 41% were clearly connected with textiles, indicating a close-knit group of 'mutual trading and credit extension'.<sup>33</sup> If anything banks tended to over-lend to textiles firms, leaving them with insufficient liquidity, which may not have been surprising given the close industrial ties of the partners of these banks. This illiquidity and local investment can be seen in the example of Swaine & Co, which when it failed in 1807 had the majority of £523,000 invested in the locality, with £204,000 of this tied up in the drafts of the firm W.S. & J. Crossley.<sup>34</sup>

This situation was not unique. An earlier example of a bank failure due to industrial lending can be seen from the collapse of Hargreaves Livesey, calico printers of Blackburn. This firm benefitted from the services of the Manchester Bank of William Allen and their London agents Lowe, Vere & Co. In February 1782, the London bank was making £33,500 available to the Blackburn firm, an amount which made them decidedly uncomfortable and which they wished to see reduced. The caution of the London house was justified in this instance. Allen maintained his exposure to Hargreaves and when the firm failed due to overtrading in 1788, it caused the collapse of the Manchester Bank within 48 hours.<sup>35</sup> Other Manchester banks maintained more successful links with their industrial customers. In the same year that Allen failed, the Heywoods, bankers at Liverpool, made their second attempt to open a bank in Manchester, the first attempt in 1784 having failed.<sup>36</sup> The bank developed an industrial clientele: Richard Arkwright had deposits of £13,862 at his death in 1792, while the machinists McKonnel and Kennedy were also customers by 1791.<sup>37</sup> However this raises two points: firstly the credit balances show that successful industrialists were potentially a source of funds for banks. Secondly it is also clear that the most important customers in terms of account turnover were all merchants in the early 1790s: the cotton merchant

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<sup>30</sup> R.O. Roberts, 'The operations of the Brecon Old Bank of Wilkins & Co. 1778-1890', *Business History* I (Dec, 1958), p. 45.

<sup>31</sup> *Ibid.*, pp. 43-4.

<sup>32</sup> Brunt, 'Rediscovering Risk', pp. 76-7, 85-6, 88-96.

<sup>33</sup> Pat Hudson, 'The Role of Banks in the Finance of the West Yorkshire Wool Textile Industry, c. 1780-1850', *The Business History Review* 55.3 (Autumn, 1981), pp. 380-2.

<sup>34</sup> *Ibid.*, pp. 383-5.

<sup>35</sup> E.J.T. Acaster, 'Partners in Peril: The genesis of banking in Manchester', *The Three Banks Review* 138 (June, 1983), pp. 53-8. See also Pressnell, *Country Banking*, p. 336.

<sup>36</sup> E.J.T. Acaster, 'Benjamin Heywood, Sons & Co: Bankers in Manchester 1788-95', *The Three Banks Review* 119 (Sept, 1978), pp. 47-8.

<sup>37</sup> Acaster, 'Benjamin Heywood, Sons & Co: Bankers in Manchester 1788-95', pp. 52-3.

Thomas Norris was turning over almost £46,000 through to the six months to December 1791, while in the same period for 1792, the sum was over £90,000. At the same time he had a substantial overdraft with the bank. Other important accounts were those of Edensor and Benjamin Luke Winter & Co, wine merchants.<sup>38</sup>

Even in less industrial areas, some firms lent extensively to industrial companies. Thus the Smiths' banking partnership in Nottingham provided substantial financing to the Sheffield ironmasters Roebuck & Sons. Leighton-Boyce argues that Roebuck's were the Nottingham bank's most important customer at mid-century and by 1789 Smiths' had advanced the ironmasters £10,500 on security of the Carron ironworks. The real importance however was in the turnover of the accounts, with bills of exchange for £18,238 passing through the account in the twelve months to August 1750, and £21,238 during the following 12 months. Roebuck's paid for imported raw materials via Smiths' agent in London, who were reimbursed by the Nottingham bank through bills 'sent for collection through the bank's London agents'.<sup>39</sup>

Banks could also undertake financial activities that were indirectly beneficial to industry, particularly in the area of infrastructure. The detailed work undertaken by J.R. Ward on the finance of canals led him to conclude that the involvement of bankers in these schemes was 'modest'. They might frequently subscribe to shares in newly promoted canals, 'sometimes for substantial amounts', but they were never more than a small minority of investors. The only exception to this was the Salisbury and Southampton Canal, the failure of which brought the Bath City Bank down with it. The opportunity for a banker lay instead in the position of Company Treasurer, which from the 1780s was usually filled by a banker and allowed the company to maintain an overdraft, usually short-term to cover a delay in the payment of capital calls by shareholders. More frequently it provided a positive cash balance for the bank.<sup>40</sup> Overdrafts of anything up to £6,000 appear to have been common, while the Grand Junction canal had an outstanding balance in excess of £20,000 in May and October 1801.<sup>41</sup> Part of the problem for bank finance was a question of timing: much of the canal network was built in the 1790s, when banks were reluctant to extend new loans, and were indeed more likely to request repayment of outstanding ones. However when a treasurer-banker could not meet the company's most urgent cash requirements, he was likely to be stripped of his office.<sup>42</sup> Overall it appears that investments in canals had a similar appeal to investments in breweries: once constructed they promised reliable cash flows which the banker could use to his advantage.

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<sup>38</sup> Ibid., pp. 50-1.

<sup>39</sup> Leighton-Boyce, *Smiths the Bankers*, pp. 42-3. This refers probably to the financing of Roebuck's Sheffield interests. The Carron Company's financial needs appear to have been financed via the Edinburgh bank of Messrs Fairholme, and after their failure in 1764, Messrs Manfield, Hunter & Co. Roebuck did raise some loans for the firm in Sheffield, and in the period 1769-72 accommodation bills drawn on London were also an important source of finance. In 1769 the company had £28,255 of bank loans and £21,768 of drafts on London outstanding. For details on the financing of the Carron iron works, see Campbell, 'The financing of the Carron Company', especially pp. 23-5, 28-30.

<sup>40</sup> J.R. Ward, *The Finance of Canal Building in Eighteenth Century England* (Oxford, 1974) p. 109-111; see also Presnell, *Country Banking*, pp. 389-400.

<sup>41</sup> Ward, *The Finance of Canal Building*, pp. 186-90.

<sup>42</sup> Ibid., p. 112-3.

There are reasons even to be sceptical of conclusions drawn from industry-specific analyses, however. Firstly, they are looking for finance of industrial firms, so not surprisingly they find some examples thereof. Other 'industrial' activities/regions however clearly did not depend particularly on bank finance. Mokyr points to the scarcity of banks in the key industrialising region of Lancashire, highlighting it as one of the greatest difficulties of linking banking with economic/industrial growth.<sup>43</sup> Clothiers in the West of England did not appear to depend on advances from Country Bankers, although their requirements or capital may have been limited given that large mills did not emerge until after 1800 and the 1790s were highly profitable. In 1793, John Anstie of Devizes was brought down by the failure of his banker; however he was an exception and had been in financial difficulties since 1789.<sup>44</sup>

Even within many industrial towns, the banks were generally not related to industrial enterprises to the extent that Hudson found in the West Riding. For example in Sheffield the banks are largely thought to have grown out of the factors or middlemen, rather from the industrial producers.<sup>45</sup> This town was also notable for its difficulties in generating lasting banking houses in this period: its first two banks lasted eight and eleven years respectively, while a third lasted but two years from its foundation in 1783. The two surviving banks at the end of the century were Shores (established in 1774) and Messrs Walkers & Co. (1792). Only Messrs Walkers can be said to have industrial origins, their ironworks being the greatest manufacturing concern in the district.<sup>46</sup> In Leeds it appears that merchants featured most prominently in the formation of banking establishments. Wilson argues that in that city there had been a longstanding connection between the merchants and gentry, with merchants accepting deposits and negotiating mortgages. Banking was a 'systematisation of existing monetary transactions'.<sup>47</sup> Beckett's bank, perhaps the most famous of Leeds banks, was established as Lodge & Arthington around 1750, John Arthington being a Quaker linen-draper and Thomas Lodge the nephew of an eminent London merchant. Beckett himself was woollen merchant, who also imported wine from Portugal, while another partner, Thomas Broadbent was a wholesale grocer. The New Bank (Wickham, Field, Cleaver and Eamonsen Junior; est. 1777) and the Commercial Bank (Fenton Scott, Binns, Nicholson & Smith; 1793) were both dominated by commercial families. Wilson concluded that capital accrued in the cloth trade was 'diverted into, and occasionally fast dissipated in, banking activities', diverting commercial fortunes away from large-scale manufacturing. They tended to provide loans and overdrafts to larger, more established houses, which were 'in the last resort least needing them'.<sup>48</sup>

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<sup>43</sup> Mokyr, *The Enlightened Economy*, p. 223.

<sup>44</sup> J. de L. Mann, *The Cloth Industry in the West of England* (Oxford, 1987), pp.132-33.

<sup>45</sup> Leader, 'The Early Sheffield Banks', p. 230.

<sup>46</sup> *Ibid.*, pp. 231-2, 234, 236-7. Of the three banks that did not last, Benjamin Roebuck appears to have voluntarily exited banking in 1778, while Thomas Broadbent and Haslehurst & Son failed in 1782 and 1785 respectively.

<sup>47</sup> R.G. Wilson, *Gentlemen Merchants, The merchant community in Leeds, 1700-1830* (Manchester, 1971), pp. 151-5.

<sup>48</sup> Wilson, *Gentlemen Merchants*, pp. 155-8; H. Pemberton, 'Two Hundred Years of Banking in Leeds', *The Publications of the Thoresby Society* 46 (1963), pp. 56-7 and 62-4. The Leeds New Bank's Henry Whickham was a landowner, while in the Commercial Bank, Lucas Nicholson was an attorney and

The previous chapter argued that geographically most banks were not located in industrial areas but originated in rural or mixed economies. This means that a new approach to the analysis of banking is required, part of which should focus on the importance of English towns as urban service centres. That England was becoming increasingly urbanised is beyond dispute. While London was the principal beneficiary of urbanisation in the seventeenth century, in the eighteenth century provincial towns also participated in this growth.<sup>49</sup> The first half of the eighteenth century is also understood to have seen rising numbers of craftsmen and professionals in these towns.<sup>50</sup> Peter Borsay has argued that the urban renaissance that took place in the period 1680-1760 was driven partly by economic change, but 'by aiding the development of a competitive society, also contributed to future economic change'.<sup>51</sup> The economic forces driving this change are important in the context of banking, as it is indicative of a growing service economy emerging in provincial towns. A fundamental part of this argument is that towns were becoming less centres of manufacture of 'essentials' and more orientated towards the production of luxuries and the provision of services. The towns Borsay mentions in this respect include Warwick, Worcester and Preston.<sup>52</sup> That the urban middling-sort grew from about 170,000 in 1700 to 475,000 in 1800 (excluding London) was important.<sup>53</sup> They, alongside the gentry, generated 'surplus wealth' that could utilise these services. Towns could draw wealth from their surrounding hinterlands and also generate further wealth.<sup>54</sup>

Although these authors do not explicitly address the growth of banking within these towns, it is arguable that it did form part of the same process whereby new trades and services emerged. An example where this analysis might be applicable would be Bath. With no obvious commercial or industrial purpose, this was a town developed for leisure. Yet it was also a popular location for the formation of banks. Although there were only three going concerns in 1796, through the period to 1800, 7 banks were established there. Even with three banks, the town's banking density was greater than that of many industrial cities. The utility of banks in tourist towns is quite clear, given generally wealthy visitors who needed access to their money. A similar type of tourist-orientated business was carried out by the

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John Binns a stationer or bookseller, so their origins maybe not quite as obviously commercial as Wilson implies.

<sup>49</sup> Fisher, 'London as an "Engine of Economic Growth"', pp. 185-98.

<sup>50</sup> Alan Everitt, 'Country, County and town: patterns of regional evolution in England' in P. Borsay (ed.), *The Eighteenth Century Town, 1688-1820*, pp. 98-104; J.M. Ellis, 'Regional and County Centres, 1700-1840, in Peter Clarke (ed.), *The Cambridge Urban History of Britain*, vol. II, 1540-1840 (Cambridge, 2000), pp. 685-90.

<sup>51</sup> Peter Borsay, 'The English Urban Renaissance: The Development of Provincial Urban Culture c. 1680- c. 1760', *Social History* 2.5 (May, 1977), pp. 597-8.

<sup>52</sup> Ibid., pp. 584-6.

<sup>53</sup> For details of the growth of the middling sort, see Margaret R. Hunt, *The Middling Sort, Commerce, Gender and the Family in England, 1680-1780* (London, 1996), especially pp. 17-20.

<sup>54</sup> Borsay, 'English Urban Renaissance', pp. 590-93. He includes Exeter, Norwich and Nottingham in particular in this category.

Margate Bank as that town developed as a tourist centre.<sup>55</sup> The Margate bank of Cobb & Son is of wider interest. It is classified by Pressnell as a bank that arose from a shipping interest.<sup>56</sup> While the Cobbs did indeed have an interest in shipping, this was relatively recent and in fact their principal business interest was their brewery.<sup>57</sup> Established in 1785, the bank was at best a mid-sized concern and the economy it served did not have one dominant industry. Instead it provided services for a broad range of different clients with different needs. It provided a store for deposits of the local pseudo-gentry, professionals and charities. These were invested inside the region, in transport infrastructure, shipping, the brewery, agriculture and by lending to townsmen including rope-makers, clerks, house agents, school master or the customs house officer, as well as through the London money market.<sup>58</sup> The implication is that many banks were not highly concentrated in one project or economic sector, but instead were responding to a requirement for financial services from a broad range of areas.

The other key issue raised in the previous chapter was the issue of banking in the commercial towns, and associated with this, the role of banks in financing commercial activity. Pressnell believed that the finance of trade was an essential feature of provincial banks claiming that the 'finance of trade, both internal and external, was an outstanding feature' of their activity, yet the evidence he presents to justify this position is limited largely to the early nineteenth century and confined to ten pages of his book.<sup>59</sup> The significance of banking for the nation's commerce has been taken up by some of the more general overviews of the English economy in this period. Mokyr claims that the 'significance of country and London banks to the commercial sector is obvious and immediate; without it long- and medium-distance trade would have been all but impossible'.<sup>60</sup> However the importance of the trading interest has been lost in much of the later literature, and even within remittances the role of tax-remitters has generally received greater attention.<sup>61</sup>

In the main trading centres, 'bankers commonly originated from trade', particularly from wholesale traders, such as clothiers, iron merchants, tea and wine importers, drapers, mercers, general merchants and overseas traders, whose large remittance activities made them suitable for this role.<sup>62</sup> Ten of Liverpool's fourteen important banks originated from trading houses, while half of Newcastle's banks had partners concerned in trade and almost all of Bristol's banks had partners engaged in overseas trade.<sup>63</sup> In the lesser ports, such as Whitby, Sunderland, Boston or Dover, shipowners featured prominently as bank founders.

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<sup>55</sup> K.J. Lampard, 'Country Banks and Economic Development in the Late Eighteenth and Early Nineteenth Centuries: The Case of the Margate Bank', *Archaeologia Cantiana* CXII (1994), p. 80; idem, 'Cobb & Son, bankers of Margate', p. 139.

<sup>56</sup> Pressnell, *Country Banking*, p. 50.

<sup>57</sup> Lampard, 'Country Banks and Economic Development', pp. 79-80.

<sup>58</sup> Ibid., pp. 80-91.

<sup>59</sup> Pressnell, *Country Banking*, pp. 356-65. Direct evidence is presented for three banks: the Sleaford Bank, Raikes & Currie (West Riding), and Messrs. Leyland, Bullins & Co. (Liverpool). The bulk of the evidence dates to 1810-20.

<sup>60</sup> Mokyr, *Enlightened Economy*, pp. 223-4.

<sup>61</sup> See for example Pressnell, 'Public Monies and the Development of English Banking', pp. 378-97.

<sup>62</sup> Pressnell, *Country Banking*, pp. 47-9.

<sup>63</sup> Ibid., pp. 49-50.

Even in inland cities, commercial interests were an important source of bank founders, including Jones Loyd in Manchester and Twining's in Colchester.<sup>64</sup> What all these partners would have had in common was extensive experience in long-term credit transactions from their original business. Within the commercial establishments drapers and mercers featured prominently. Examples included Joseph Berwick's bank in Worcester, Stevenson & Co. in Stafford, Mortlock's in Cambridge, the Banbury Bank and the Oxford bank of Fletcher and Parsons. These banks tended to be stronger and longer-lived than those emerging from many other trades.<sup>65</sup> Pressnell provided no statistics to support this point. However Ward-Perkin's analysis of the first 50 bank partners shows that they were distributed across 26 banks, of which seven were linked to the textile trades (mercers, drapers and woolstaplers). Of all provincial bank founders, including nineteenth century foundations, almost 17% of founding partners originated in the textile trades, the largest group after the gentry (21%).<sup>66</sup> Their ubiquity reflects the importance of the cloth trade to the eighteenth century economy. After drapery, the other forms of common trading banks were derived from ironmongery (5%), coal dealing (3.2%) and corn merchanting (2.1%).<sup>67</sup>

For more in-depth information on the growth of banking in a commercial environment one can look to developments in Bristol, which, as noted in the previous chapter, was the most heavily banked city outside of London. By the eighteenth century the process of national integration, dominated by a London price-setting market, had not run its course and some provincial centres managed to maintain substantial regional significance, including Bristol. Bristol's banking history was first charted by Cave at the end of the nineteenth century and some further studies have subsequently been published, although as is often the case, the main focus is on the nineteenth century. Of the 13 banks established in Bristol in this period, five banks were of longer-term significance: the Old Bank; Ames, Cave & Co; Miles' Bank; the Harford Bank; the Bristol City Bank (Table 15).<sup>68</sup> Bristol served as an entrepôt not only for the South West, but also South Wales and the West Midlands, with equally extensive colonial connections. The city was important in financing industrial ventures in both Wales and the Midlands, most famously perhaps the Coalbrookdale ironworks. These banks were therefore operating in a diversified area and were part of a financial centre for their hinterland. Early banks in South Wales for example maintained an ability to draw on Bristol bankers into the nineteenth century.<sup>69</sup>

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<sup>64</sup> Ibid., pp. 50-1.

<sup>65</sup> Ibid., pp. 51-3.

<sup>66</sup> Dawes and Ward-Perkins, *Country Banks*, vol. 1, pp. 38-43. One should note in their analysis that the groups do not appear to be mutually exclusive.

<sup>67</sup> Pressnell, *Country Banking*, pp. 53-4. The figures in brackets give again Dawes and Ward-Perkins' data for the share of founders from these firms.

<sup>68</sup> P. Ollerenshaw, 'The Development of Banking in the Bristol Region', in Charles Harvey and Jon Press, *Studies in the Business History of Bristol* (Bristol, 1988), p. 72. These five banks are now all part of the RBS Group. Stuckey's, another famous bank of the region, opened a Bristol office in 1806.

<sup>69</sup> Minchinton, Bristol: 'Metropolis of the West in the Eighteenth Century', pp. 83-6; Ollerenshaw, 'Development of Banking in the Bristol Region', pp. 55-6; T.M. Hodges, 'Early Banking in Cardiff', *ECHR* 18.1/2 (1948), pp. 84-5

Bank name	Year of formation	End Date	Exit
Old Bank	1750	1891	Merger - Prescotts (NatWest)
Miles Bank	1752	1877	Merger - Bristol Old Bank
Exchange Bank	1764	1826	Ceased
Harford Bank	1769	1820	Merger - Miles Bank
Peach & Co	1774	1781	Dissolved
Davis & Sons	1781	1801	Ceased
Benjamin Loscombe	1781	1783	Bankruptcy
Ames, Cave & Co	1786	1826	Merger - Bristol Old Bank
Joseph Gregory Harris	1786	1828	Closed
Thomas Wigan	1790	1793	Stopped payment
Bristol City Bank	1794	1834	Merger - Northern and Central Bank of England
Bicknell, Sutton & Gillam	?	1784	Bankruptcy
Thomas Wigan Junior	?	1785	Bankruptcy

**Table 15: Eighteenth century banks of Bristol (Source: Dawes and Ward-Perkins, *Country Banks*)**

Cave noted the potential existence of goldsmith-bankers in Bristol prior to the establishment of formal banks. Goldsmiths had until the mid-seventeenth century acted as money changers and after 1645 started lending money, and paying and charging interest. Notable instances included three goldsmiths named Coursley, bankers to the town Corporation in the seventeenth century. Thomas Wall, described as a bookseller and son of the goldsmith Richard Wall, was involved as a banker from 1677 until his death in 1715, after which his wife continued the business until 1763.<sup>70</sup> Cave argues John Vaughan's dealings with the Corporation make him "the Father of Bristol Banking".<sup>71</sup> However an emphasis on the significance of goldsmiths can be misleading. Firstly, Vaughan himself was only a junior partner in the second bank of that city. Equally only one other goldsmith managed any sort of transition to being a banker: Thomas Wigan, who was bankrupted in 1785 as a goldsmith and banker, and the venture under the same name, presumably related, established around 1790 which failed in 1793.<sup>72</sup>

In reality, banking in Bristol originated from mercantile activity.<sup>73</sup> According to both Price and Ollerenshaw, it was the town's international trade that encouraged the formation of banks there and in other West coast ports. This formed part of what Price calls 'a miniature banking revolution in the ports, foretelling the greater inland banking explosion after 1783'.<sup>74</sup> The desire of merchant houses to engage in banking has been attributed to the extra capital it could provide to finance the core trading business. The Gurney's financial business existed for the benefit of the merchanting business and was a direct result of the pressures that the extension of credit placed upon it. For example in 1767, the financial

<sup>70</sup> Cave, *Banking in Bristol*, pp. 1- 5.

<sup>71</sup> Ibid., p. 7.

<sup>72</sup> See Dawes and Ward-Perkins, *Country Banks*, p. 103, for brief comments on this banker.

<sup>73</sup> For an overview of merchant activity in England, see W.E. Minchinton, 'The Merchants in England in the Eighteenth Century', *Explorations in Entrepreneurial History* 10.2 (1957), pp. 62-71; Kenneth Morgan, 'Bristol West India Merchants in the Eighteenth Century', *Transactions of the Royal Historical Society*, Sixth Series, vol. 3 (1993), pp. 185-208.

<sup>74</sup> Ollerenshaw, 'Development of Banking in the Bristol Region', p. 56; Price, *Capital and Credit*, pp. 67-9.

part of the company had surplus cash of £20,000. This largely matched the £20,000 capital short-fall in the merchanting business.<sup>75</sup> Price believed that this situation was not unique to the Gurney business and that in the third quarter of the eighteenth century:

export merchants and their allies among the big wholesalers (who also had to sell on long credit) took the lead in forming banks that mobilized the wealth of the agricultural sector ... and the savings of lesser traders, prosperous artisans, and professionals in town in order to advance credit to substantial merchants (including the partners in the bank).<sup>76</sup>

That country banks, especially those in larger towns, were generally aimed at local businesses at this point is also argued by Sayers in relation to both Lloyds at Birmingham and an early Southampton bank, for which about two thirds of the customers were 'craftsmen-tradesmen'.<sup>77</sup>

As with the country in general, it should be noted that Bristol bank partners were generally part of a civic elite and had diverse interests, including in local industrial activities, but merchanting features most prominently.<sup>78</sup> The Old Bank in particular had a commercial hue: Onesiphorous Tyndall was a West India merchant and drysalter, while Isaac Elton was the Master of the Merchant Venturers. In the case of the Exchange Bank, a strong participation by lawyers was supported by Swymmer, who was a West India merchant. The Miles Bank was formed by Richard Champion, Michael Miller, James Reed, John Vaughan, Thomas Goldney and Morgan Smith, described collectively at the time as 'wealthy and reputable merchants'. Champion and Goldney's main interest were as merchants, as was James Reed, although he was less well-known. Michael Miller was of a family of grocers and had privateering interests, while Morgan Smith was a sugar refiner. The only partner without a merchant related background was therefore John Vaughan, the aforementioned goldsmith.<sup>79</sup> Nor was this dominance of the commercial interest confined to the banks of Bristol itself. Stuckey's bank was established in Langport in 1772, and the Stuckey family, active in the coasting trade in partnership with the Bagehots, dominated the commercial life of that town. Offices in Bridport and Bristol followed in 1806, styled as the Bristol and Somersetshire Banking Company.<sup>80</sup>

Of the 50 leading sugar merchants, Bristol's most important trade, eight became partners in one of the banks of the City.<sup>81</sup> Other links between banking and commerce could be seen in the tobacco trade, from which trade both Thomas Knox and Edward Harford emanated. The Bristol banks provided some credit, although the principal source of credit were the warehousemen, such as Fisher, Baker & Griffin, who were operating on capital of £36,000

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<sup>75</sup> Price, *Capital and Credit*, pp. 66-7.

<sup>76</sup> Ibid., pp. 67-9.

<sup>77</sup> Sayers, *Lloyds Bank*, pp. 89-90.

<sup>78</sup> Ollerenshaw, 'The Development of Banking in the Bristol Region', pp. 56-7.

<sup>79</sup> Ibid., p. 57; Stembridge, *The Goldney Family*, pp. 61, 67-8.

<sup>80</sup> Ollerenshaw, 'Development of Banking in the Bristol Region', pp. 58-9. Even after conversion to joint-stock status, the bank remained firmly rooted in Somerset, both in terms of branches and shareholders.

<sup>81</sup> Morgan, 'Bristol West India Merchants', p. 201.



in 1754.<sup>82</sup> The wider commercial significance of the banks can also be seen in the activities of the Merchant Venturers, from whom an initial proposal for a bank in Bristol had emerged in 1713, although this was not created. In 1774, they drew attention to a bill that was designed to stop persons engaged in any other trade also being concerned in a banking house. This was protested because:

Banks of this City are of great Utility to the Trade, being incorporated into the Plan of Trade carried on her ... We consider the Plan as an attempt to establish a Monopoly which is destructive of all Trade...<sup>83</sup>

It is also clear from these records that Ames, Cave & Co. and Tyndall, Elton & Co at the end of the century both lent money to the Society, which faced liquidity problems. Much of the Society's expenditure appears to have gone towards improvements of the port, which the banks were therefore indirectly helping to finance.<sup>84</sup>

Few details of the financial performance of these banks are available. An exception can be found in the case of the Bristol Old Bank, for which Price provides some information, particularly around the years 1772-5. In terms of liabilities, the Bristol Old Bank's note issue was not insubstantial at around £48,000; however the bank was overwhelmingly funded by the deposits it could gather, which totalled 60-70% of liabilities (Table 16). The growth in the deposits between 1773 and 1775 probably reflects the return of confidence to the economy over that period.

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<sup>82</sup> Kenneth Morgan, *Bristol and the Atlantic trade in the eighteenth century* (Cambridge, 1993), pp. 1-2, 161-2, 186.

<sup>83</sup> Cited in Patrick McGrath, *The Merchant Venturers of Bristol* (Bristol, 1975), pp. 224-5.

<sup>84</sup> McGrath, *The Merchant Venturers of Bristol*, p. 118-123.

<b>Bristol Old Bank, 1772-5</b>		
	<b>1772/3</b>	<b>1775</b>
Capital	£27,000	£27,000
Note issue	£47,878	£47,878
Interest deposits	£46,128	£68,972
Current deposits	£100,000	£130,000
Other liabilities*	£13,380	£16,610
<b>Total liabilities</b>	<b>£221,006</b>	<b>£273,850</b>
Bills discounted	£102,251	£168,149
Cash	£42,100	£43,430
London Agent	£70,000	£45,460
Other assets	£20,035	£33,421
<b>Total Assets</b>	<b>£234,386</b>	<b>£290,460</b>
Total profits (1772/3)	£5,382	£5,382
<b>Return on Assets</b>	<b>2.30%</b>	<b>1.85%</b>
*Other liabilities is a balancing figure to make assets and liabilities match		

**Table 16: Balance sheet and returns of the Bristol Old Bank, 1772-75 (Source: Price, *Capital and Credit*, p. 79, 82, 87, 89)**

It is however the asset structure that is perhaps most interesting in this analysis. The firm maintained a very high degree of liquidity (48% and 31% of assets in each year respectively). Unsurprisingly, the firm's liquidity was greater in the depression year of 1772/3. From this evidence, the management of the firm's liquid resources took place entirely through the London agent. 'Till money' was reasonably constant, but the balance with the London agent fell from almost £70,000 in 1773 to £45,460 by 1775. Productive assets were overwhelmingly orientated towards the discounting of bills, which accounted for 44% and 58% of assets respectively. Other forms of lending accounted for only roughly 10% of the balance sheet. The bank was apparently already being run according to principles elucidated by Vincent Stuckey in 1837: long-term loans should be avoided (including permanently overdrawn accounts, which when they arose should be converted into long-term loans and further overdrafts prohibited).<sup>85</sup> Capital management was flexible: it stood at £27,000 in 1772-5, which then shrunk back to £24,000 in 1777-80 and £18,000 in 1781-2. This has been attributed to changes in the partnership over that period.<sup>86</sup>

There was some variation in terms of size between these banks. The Exchange Bank had assets of about £80,000 in January 1778; of these 76% are given as cash, which presumably included all liquid forms of lending, including discounts and any investments, but again highlighting the importance of liquidity to these banks.<sup>87</sup> These banks also seem to have

<sup>85</sup> Ollerenshaw, 'The Development of Banking in the Bristol Region', pp. 60-1.

<sup>86</sup> Price, *Capital and Credit*, p. 79.

<sup>87</sup> Pressnell, *Country Banking*, p. 520. Some caution with these numbers is needed, as the data Pressnell provides does not add up: the liabilities actually total over £87,000. However it suffices for a general comparison in size.

provided attractive returns to their owners. In 1772-3, the bank paid out £5,382 to its partners, or a return of about 20% on its capital. This equates to a return of 2.3% on its assets. By comparison, the Miles Bank had a capital of £12,000 and from the day book of Samuel Goldney, it can be established that the average return on the equity in this bank over 1754-1767 was about 15% (the lowest return was 9% in 1758, while in 1766 and 1767 the bank generated a return of over 25%).<sup>88</sup>

This chapter has focused principally on the banks of Bristol as a case study in how banks in commercial towns were related to the merchant or trading community and in how they operated. Similar experiences can be found in other commercial towns. Hughes argues that in the case of the Liverpool, an early banker was either 'a merchant, or a larger trader, who grafted the business of banking on to his own affairs', who over time aggregated the payments of smaller merchants. Prominent merchants of the town, such as Charles Caldwell or Arthur Heywood, had previously been successful merchants.<sup>89</sup> Similarly in Hull and the East Riding, banks enjoyed significant merchant participation, including Thomas Bridges, Joseph Sill and Thomas Thompson, or Sir Christopher Sykes.<sup>90</sup> These banks provided an easy source of credit to merchants, who regularly overdrew and some of the larger merchant houses maintained almost permanent overdrafts. Other merchants brought deposits to the bank, often in the region of £1,000-£5,000. Some of the Hull banks managed to access local agricultural deposits, which were a useful source of funds.<sup>91</sup> The precise nature of commercial lending of provincial banks depended upon the size and location of the trading bank: inland and port banks acted slightly differently. As with 'industrial banks', they were always likely to make funds available to the commercial businesses of the partners. The banks would also tend to lend to the local merchants, and of the identifiable debit balances with these banks, most belonged to merchant houses. Finally, through remittance activities, country banks could finance international trade from the ports they were located in, by discounting international bills through the London agents.<sup>92</sup>

Overall it does seem that there was a very strong link between banking and commerce. It is apparent from this analysis that many merchants were either directly engaged in banking or benefitted from the services of a banker. Burke valued banks as 'machines of domestick credit' for their value to foreign and domestic trade, relating them to an 'astonishing encrease of private confidence, of general circulation, and of internal commerce; an encrease out of all proportion to the growth of the foreign trade.'<sup>93</sup> Jackson argues that the commercial expansion that took place in Hull would not have been possible without the emergence of these new banking houses.<sup>94</sup> The bankers' contribution was not just about the direct provision of financial services, but the injection of confidence, for by discounting

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<sup>88</sup> Stemberge, *The Goldney Family*, pp. 70, 147. This assumes that the capital of the bank remained constant; there is no evidence amongst the Goldney papers that it was increased.

<sup>89</sup> Hughes, *Liverpool Banks and Bankers*, pp. 36-9, 84-7 and 91.

<sup>90</sup> Jackson, *Hull in the Eighteenth Century*, pp. 211-3

<sup>91</sup> *Ibid.*, pp. 255-232

<sup>92</sup> Pressnell, *Country Banking*, pp. 356-365

<sup>93</sup> E.J. Payne (ed.), *Letters on a Regicide Peace, Letter 1, On the Overtures of Peace*, 1st published 1795 (Indianapolis, 1990), pp. 59-60.

<sup>94</sup> Jackson, *Hull in the Eighteenth Century*, p. 209

and allowing merchants to draw upon him, he was declaring both the transaction and the parties sound.<sup>95</sup> There were of course limitations to the role banks could play. Jacob Price believed these banks were deposit gathering institutions and ‘could meet only a small fraction of the merchants’ credit needs’.<sup>96</sup> Judging the impact of these commercial banks on economic growth more generally depends partly on one’s opinion of trade in the process of economic growth. Merchants are accepted to be a very ‘dynamic element’ in English economic life, and for some are thought to have been responsible for generating the nation’s wealth. It is argued that the number of eminent merchants grew across the century, from 2,000 in 1700, to 2,900 in 1750 and 3,500 in 1812.<sup>97</sup> This being so, it does appear that the relationship between commerce, banking and economic growth is, at the very least, an avenue worthy of further exploration.

#### IV

This chapter has sought to address an issue raised by Bowen and Cottrell, who write that ‘banking in Britain ought not to be examined in chronological contexts that arise, somewhat teleologically, solely with the emergence of the first industrial nation in mind’. To those authors, banking formed part of a gentlemanly order that regarded industry only as part of a broad interrelated series of economic activities.<sup>98</sup> However the mainstream economic literature continues to try to incorporate banking into the historical narrative through the perspective of its role in industrial finance. This would not be such a problem if the evidence presented seemed likely to generate more firm conclusions. The anecdotal evidence that has been collated does seem to suggest that banks could be useful sources for the capital and credit that industrial firms required in the eighteenth century. However in the absence of a full systematic analysis of the topic through loans books or a large sample of industrial firms, these conclusions are always likely to be tentative.

Even if a more conclusive answer could be found, it would be questionable if such a narrow focus on industrial finance is appropriate. It is anachronistic and may lead other important aspects of the role of banking to be neglected. Other frameworks offer the possibility of fresh insights on the link between finance and economic growth. Capie for example has tried to look at the potential significance of changes in the monetary sophistication, of which banking clearly formed a part, but his conclusions are problematic.<sup>99</sup> These two chapters offer another alternative approach by placing the analysis of banks within the context of the service economy and the growing sophistication and specialisation of the

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<sup>95</sup> Pressnell, *Country Banking*, p. 363.

<sup>96</sup> Price, *Capital and Credit*, pp. 94-5.

<sup>97</sup> W.E. Minchinton, ‘The Merchants in England in the Eighteenth Century’, *Explorations in Entrepreneurial History* 10.2 (1957), p. 62.

<sup>98</sup> Bowen and Cottrell, ‘Banking and the evolution of the British economy’, pp. 89-95. They draw on Cain and Hopkins’ concept of the English economy of the period, especially the role of finance in conducting imperial affairs.

<sup>99</sup> Forrest Capie, ‘Money and economic development in eighteenth century England’ in Leandro Prados de la Escosura (ed.), *Exceptionalism and Industrialisation, Britain and Its European Rivals, 1688-1815* (Cambridge, 2004), pp. 227-9.

economy that can be seen particularly in the growth of towns during this period. This approach recognises the fact that many banks had diverse client bases with differing financial requirements, meaning that focusing on only one section can be misleading.

On the other hand it seems equally clear that there has been a considerable neglect of relationship between banking and commerce in the provinces, which mirrors in many ways the historiography of banking in London. The neglect is surprising in some ways because the numbers are clear that the largest banking centres were in commercial towns, including London. Furthermore, many of the trading banks were large, prominent concerns, such as Heywood's in Liverpool or the Smiths and the Peases in Hull. By focusing more closely on the commercial element one can begin to integrate developments in London and the provinces more closely, rather than treating them as two distinct sets of banks. In both London and the provinces, there was significant integration of bankers, merchants and wholesalers as owners and customers of banks. From an operational perspective, with the exception of the agency business, they probably faced similar challenges and in both instances, an overriding concern was to maintain liquid balance sheets.

## Conclusion

The English banking system was transformed during the eighteenth century. From just a few dozen banks in London, a genuine banking *system* that encompassed the whole country emerged. The financial crises of the 1790s served to highlight just how important this banking system had become, as can be seen by the response of local communities in support of their banks that did come under pressure.<sup>1</sup> This transformation was achieved in an environment of relatively limited government control, for restraints on private banking were modest. English banking did benefit from the series of improvements in state finance that commenced at the end of seventeenth century, particularly through the development of liquid assets that they could purchase. Clapham may be right to argue that, despite the state having no obvious interest in banking proper, the banking system is 'so closely associated with public borrowing' that the development of a national banking system would have been 'unlikely' without the establishment of the Bank of England and the changes in the public debt that derived from this.<sup>2</sup> The cap on rates imposed by the usury laws also meant that credit rationing as a form of lending control did occur, as risk could not be properly priced.<sup>3</sup> However Grossman's argument that the evolution of England's banking system was driven by the needs of the state is exaggerated.<sup>4</sup> If banks did not threaten the activity of the state, there was significant scope for autonomy within the legal constraints of the Bank's charter.<sup>5</sup> Indeed, if anything it is noticeable how little impact the formation of the Bank of England originally had. The limit on the number of partners a bank might have may have placed a cap on banks' size, but the restriction does not appear to have been a problem for most in this period. Its influence may have been no more than to encourage banks to specialise, as they were not able individually to grasp all the opportunities available.

While the growth of banking in this period has been readily acknowledged, much of the existing literature fails to approach the topic as a coherent whole. An excessive focus on the role of banking in industrial growth has been particularly unhelpful in this respect. A coherent approach to studying the whole system also of course requires a better understanding of the underlying parts. The thesis has begun to address gaps in our knowledge of some of these parts, especially amongst the banks located in the City of London. The business conducted by City bankers was complex and substantial, integrating domestic and international trade, as well as supporting much of the country's payment system through the Clearing House by the fourth quarter of the century. As with other parts of the banking system, the third quarter of the century seems to have been a particularly important period for City banking, as new banks emerged and new functions

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<sup>1</sup> For Liverpool's response to these crises, see Hughes, *Liverpool Banks and Bankers*, pp. 14-5. Methods of local support for a region's banks also emerged in the North East and Suffolk, see Banham, 'A very great public conveniency', pp. 27-30 and Jones, 'Early Banking in Suffolk', p. 400.

<sup>2</sup> Clapham, *Bank of England*, p. 2.

<sup>3</sup> Temin and Voth, 'Private borrowing during the financial revolution', pp. 553-60.

<sup>4</sup> Grossman, *Unsettled Account*, p. 195-6.

<sup>5</sup> Bowen and Cottrell, 'Banking and the evolution of the British economy', pp. 95-6.

were developed. This is an area where further study would be beneficial. However the material discovered on Forster Lubbock's provides a rare insight into the early emergence of the banking houses of this period. From a practical perspective, the records emphasise the centrality of the London banker in providing direction and control oversight to the regional correspondents. It also provides an indication of how the system was able to mobilise provincial capital and put it to use in the London money markets.

What then of the system as whole? This thesis has shown that such a coherent, integrated approach to analysing banking in this period is viable. The system itself was dependent on an extensive network of actors, each of whom had varying skill sets, which in itself speaks to the financialisation of the economy discussed in the introduction. Having said this, one group that does feature particularly prominently across different parts of the system is the merchant community. While important bankers of merchant heritage have clearly been acknowledged in the existing literature, this thesis suggests that their broader role in driving this financial specialisation, and their impact on the banking space in particular, has not been given sufficient emphasis. This is true not just of banks in London, but also within provincial banking, where they were very much within the pioneering group. A proper acknowledgement of their role is necessary for not only is it important in helping to answer why banking emerged in the manner it did in this period, but also to address the question of what the main function of these early banks actually was, and consequently banking's significance within the broader economy. Indeed the move from a goldsmith-led banking system to one that was led by merchants suggests a change in emphasis within banking, both in terms of what people needed banks for (credit versus safe-keeping of cash) and consequently also the skill-set required to manage the business.

## Appendix

The data on country banks presented in chapter 7 is based upon an analysis of the data collected by Dawes and Ward-Perkins. A few other sources are available to analyse the regional development of banks and can be used to compare and corroborate the numbers provided. The analysis of the counties of Northumberland and Durham ties in well with the estimates of Banham, who identified 10 banks in Durham and 5 in Newcastle in the 1790s.<sup>1</sup> For East Anglia, Harold Preston has created a list of bankers, or tradesmen with banking interests, that can be used to provide an overview of the growth of banking in the second half of the eighteenth century (Figure 46).<sup>2</sup> The graph shows that the overall pattern of development in both lists roughly correspond, although Preston seems to date the rise of these banks a few years earlier than Dawes and Ward-Perkins. Prior to roughly 1750, banking was a very niche activity, which began to grow at a moderate pace from that point through to around 1773. After this point there is a very noticeable acceleration in the rate of growth, despite the impact of the American Wars.

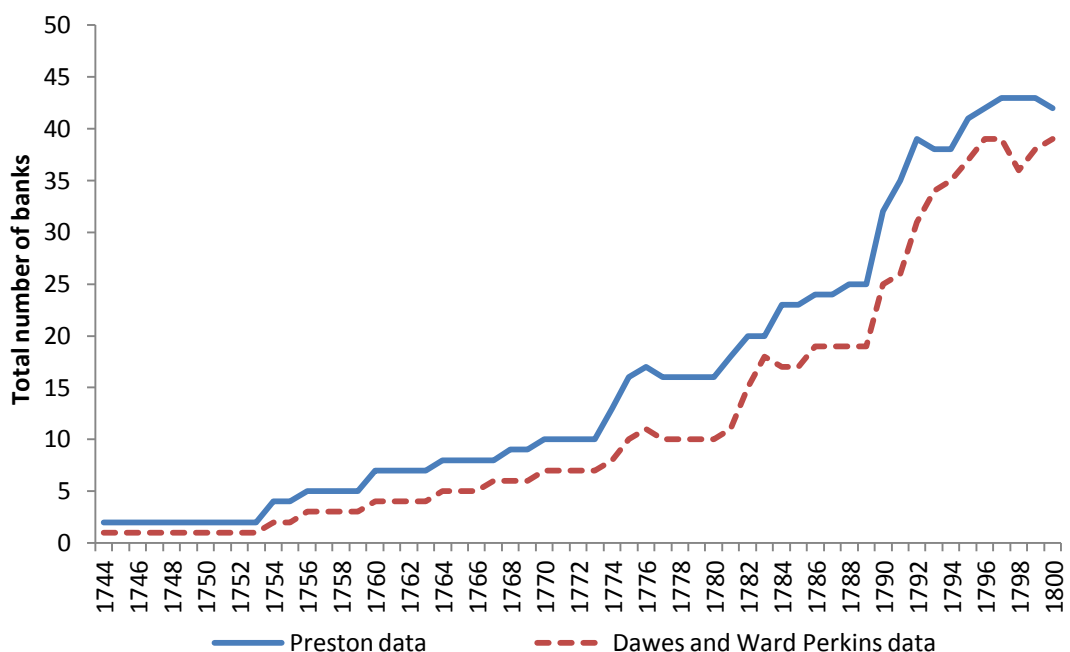


Figure 46: East Anglian banks, 1744-1800 (Sources: Harold Preston, *East Anglian Banks and Bankers*; Dawes and Ward-Perkins, *Country Banks*, passim)

<sup>1</sup> Banham, 'A very great public conveniency', p. 21. The close proximity of these numbers is not that surprising given both sources are heavily dependent on Phillip's work as their source.

<sup>2</sup> It should be noted that the graph excludes 4 banks for which the starting date is not known. For those where the initial starting date is not precisely known, I have used a date that is in the correct ballpark figure.



A similar cross-check can be performed for the South West of the country. The Baring family was closely involved in banking in the South West: Charles Baring was a partner of banks in Exeter and Plymouth, with Francis acting as their agent. It was therefore necessary for them to maintain an interest in banking in that region, which is reflected in some of the documents in the Baring's archive. A document exists that illustrates the situation in Devon in 1793. This lists the circulation of deposit notes in that county and shows that in March 1793 there were at least 14 firms carrying out such business.<sup>3</sup> This is slightly less than the eighteen Dawes and Ward-Perkins identified in that county in this period. However the difference may be explained in part by the focus on note-issuance in the Baring analysis. Given that we cannot establish exactly on which basis Baring's list was established, these estimates are close enough.

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<sup>3</sup> Baring, Northbrook Papers, NP1A 22.6, f. 4.

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